

PUBLIC DISCLOSURE

October 5, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Michigan National Bank
Charter Number 16660
27777 Inkster Road
Farmington Hills, Michigan 48334

Comptroller of the Currency
Central District Office
One Financial Place, Suite 2700
440 South LaSalle Street
Chicago, Illinois 60605

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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Glossary of Abbreviations and Terms	
Assessment Area	The geographic area(s) defined by an institution which are used to assess the institution's record of CRA performance.
ATM	Automated Teller Machine
CDC	Community Development Corporation (or Company)
CRA Disclosure	Report based on annual information filed by financial institutions as required by the CRA reflecting small business, small farm, and community development loan activity.
Geography	Locally defined statistical units commonly known as Census Tracts in MSAs and Block Numbering Areas in rural areas.
HMDA	Home Mortgage Disclosure Act - a statute that requires certain mortgage lenders to file annual summary reports of housing-related lending activity.
Income Levels	Four income categories are designated for areas and individuals. Low-income: an income level that is less than 50% of the median Moderate-income: an income level that is at least 50% but below 80% of the median Middle-income: an income level that is at least 80% but below 120% of the median Upper-income: an income level that is 120% of the median or above
MSA	Metropolitan Statistical Area - An area containing a city with a population of at least 50,000, or an urban area with a population of 50,000 within a metropolitan area of at least 100,000.

Tier One Capital	For regulatory purposes, capital is separated into two major groups. The primary Tier One components are common stock, noncumulative perpetual preferred stock, surplus, undivided profits, net worth certificates, minority interest in unconsolidated subsidiaries, less ineligible deferred tax assets, less ineligible intangible assets.
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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 **Michigan National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of October 5, 1998. 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 the 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.

Institution's CRA Rating: This institution is rated "**Satisfactory record of meeting community credit needs.**"

Summary of Performance: Michigan National Bank has affirmatively addressed the credit needs of its communities. Key factors in reaching this conclusion are summarized below.

- ! Michigan National Bank is an active lender, especially with regard to home improvement and small business loans. Community development lending, totaling \$33 million during the past two years, also reflects a general responsiveness to credit needs.
- ! The bank's proportion of home lending to low- and moderate-income borrowers has been reasonable in relation to the percentage of the population comprising those segments of the population.
- ! Michigan National Bank's geographic distribution of loans has been adequate. Overall, lending in low- and moderate-income areas has been acceptable. The bank made 90% of its loans within its assessment areas during the past two and one-half years.
- ! The bank's community development qualified investment activity, totaling \$3.6 million, is considered adequate. Michigan National Bank established an active community development

corporation during the evaluation period. This had a positive impact on efforts to address community development needs.

- ! Michigan National Bank's offices are adequately accessible to the various segments of the community, and expanded business hours are maintained. The provision of community development services has been adequate.

The following table indicates the performance level of Michigan National Bank with respect to the Lending, Investment, and Service tests.

Performance Levels	Michigan National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	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.

Description of Institution

Michigan National Bank (MNB) is a full service commercial bank headquartered in Farmington Hills, Michigan. With assets of \$10 billion at September 30, 1998, the bank serves all or portions of twenty-three counties in southern and central Michigan through 194 offices.

MNB is a wholly-owned subsidiary of Michigan National Corporation (MNC), also headquartered in Farmington Hills. National Australia Bank Limited (NAB) acquired MNC in 1995, and is the principal U.S. banking subsidiary of NAB. NAB has operations in Asia, Australia, Europe, Ireland, New Zealand, and the United Kingdom. With assets nearing \$150 billion (U.S. dollars), NAB is one of the world's largest banking and financial service organizations.

The bank provides a full range of retail and commercial banking products, as well as trust and brokerage services. During the past two years, the bank focused particular attention on addressing the small business and home improvement credit needs of the community. No legal impediments that impact the bank's ability to address community credit needs have been identified. At September 30, 1998, MNB had a loan-to-deposit ratio of 106%, and Tier One Capital of \$965 million. Table 1 recaps the bank's loan portfolio.

Table 1 MNB's Loan Portfolio (\$000's)		
Commercial, Industrial, & Business Loans	\$3,220,370	41%
Commercial Loans Secured by Real Estate	2,368,313	30%
Residential Mortgages & Home Equity	1,134,575	14%
Consumer Loans	978,572	13%
Other Loans	157,696	2%
Total Loans Outstanding 9/30/98	7,859,526	100%

Source: September 30, 1998 Report of Condition

Description of Assessment Areas

For CRA evaluation purposes, MNB has eight assessment areas, which consist primarily of portions of Metropolitan Statistical Areas (MSAs). Table 2 provides a breakdown of the bank's deposits by assessment areas, as well as the distribution of various demographic variables. For instance, the Grand Rapids Assessment Area contains 8% of MNB's deposit dollars, 5% of the number of low-and moderate-income census tracts, and 8% of the low- and moderate-income families residing in the assessment areas. Table 2 also reflects the level of review we performed for each assessment area during this evaluation. Refer to the appendix section for additional information regarding the scope of this evaluation.

Table 2 Assessment Area Breakdown							
Assessment Area	MNB Deposit Dollars %	Low/Mod Tracts %	Low/Mod Families %	Population %	Owner-Occupied. Housing %	Businesses %	Level of Review
Detroit /AA / Flint	72	76	72	70	70	68	Full
Lansing	9	5	5	6	5	6	Full
Grand Rapids	8	5	8	9	9	11	Limited
Kalamazoo	5	5	5	5	5	6	Limited
Saginaw	4	5	5	5	5	5	Limited
Benton Harbor	1	2	2	2	2	2	Full
Southwest Mich	1	1	1	1	1	1	Full
Jackson	<1	2	1	1	1	1	Limited
Total	100%	100%	100%	100%	100%	100%	

Note: Categories may not add to 100% due to rounding

We primarily based our conclusions on the bank’s performance in the four assessment areas where we performed full analyses. For the limited analyzed assessment areas, we determined if general performance characteristics were consistent with what we observed during our review of the full-scope areas. When drawing our conclusions, we placed a high degree of emphasis on performance within the Detroit / Ann Arbor / Flint Assessment Area due to its significant demographic size and the high percentage of bank assets and deposits located there. The four assessment areas where we performed full analyses are described below.

The ***Detroit / Ann Arbor / Flint Assessment Area*** consists of all or portions of eight counties in southeast Michigan. This assessment area is primarily within the Detroit-Ann Arbor-Flint Consolidated Metropolitan Statistical Area (CMSA comprising Detroit MSA 2160; Ann Arbor MSA 0440; Flint MSA 2640). A small section of Sanilac County is also included, but the assessment area boundaries do not extend substantially beyond the CMSA. Portions of the CMSA, including the counties of Lapeer, Lenawee, and Monroe, are not included in the bank’s assessment area as MNB has no offices located there. The bank serves the area with 131 offices. Demographic information is provided in Table 3.

Table 3 MNB’s Detroit / Ann Arbor / Flint Assessment Area Demographic Data										
TOTAL POPULATION (1990 Census)				4,899,082						
MSA MEDIAN FAMILY INCOME (MFI)		\$		FAMILY INCOME CHARACTERISTICS						
1990 HUD MFI Detroit MSA		40,727		(Based on 1990 HUD MFI)						
1990 HUD MFI Ann Arbor MSA		45,123		Low (below 50% of median)		282,016	22			
1990 HUD MFI Flint MSA		36,760		Moderate (50 - 79% of median)		213,179	17			
1998 HUD Adjusted MFI Detroit MSA		57,200		Middle (80-119% of median)		286,420	22			
1998 HUD Adjusted MFI Ann Arbor MSA		61,300		Upper (120% of median or above)		507,807	39			
1998 HUD Adjusted MFI Flint MSA		49,700		Total		1,289,422	100			
CENSUS TRACT CHARACTERISTICS (Based on HUD Median Family Income)			Tracts		Owner-Occup. Housing Units		Families		Businesses	
Low (below 50% of median)			Count	%	Count	%	Count	%	Count	%
Moderate (50 - 79% of median)			226	17	95,105	8	151,724	12	14,553	8
Middle (80-119% of median)			216	16	170,025	14	196,476	15	22,532	13
Upper (120% of median or above)			545	41	593,832	47	568,777	44	76,968	45
Not Classified			327	25	390,758	31	372,445	29	58,397	34
Total			1,331	1	0	0	0	0	231	0
			1,331	100	1,249,720	100	1,289,421	100	172,681	100

Sources: U.S. Census data; Dun & Bradstreet, Inc. business data

Note: some percentages may not add to 100% due to rounding

The Detroit / Ann Arbor / Flint Assessment Area is primarily a mix of urban and suburban neighborhoods, with metropolitan Detroit being the focal point. Ann Arbor is located approximately thirty-five miles west of Detroit while Flint is located approximately sixty miles north of Detroit. The low- and moderate-income neighborhoods are primarily centered within the cities of Detroit and Flint,

although other low- and moderate-income neighborhoods are located elsewhere in the CMSA. Unemployment levels have been relatively low. According to the State of Michigan Unemployment Agency, unemployment rates for September 1998 were 2.1% for the Ann Arbor MSA, 3.3% for the Detroit MSA, and 4.5% for the Flint MSA. However, the cities of Detroit and Flint have been experiencing levels more than twice the State of Michigan average. In September 1998, Detroit and Flint had 7.3% and 8.0% unemployment rates respectively, compared to the state unemployment rate of 3.2%. A General Motors workforce strike in mid-1998 particularly impacted employment levels in the Flint area. The local economy is primarily driven by the automotive industry. Other prominent industries include medical care and education.

The financial market is highly competitive. Aggregate Home Mortgage Disclosure Act (HMDA) and CRA Disclosure report data reflected that ninety institutions had lending volumes in excess of 500 loans in the CMSA in 1997. FDIC information showed that fifty-six financial institutions with aggregate deposits in excess of \$62 billion operated more than 1,200 offices within the eight counties where MNB has offices. Some of the primary lending institutions operating in the area are NBD Bank, Comerica Bank, National City Bank (formerly First of America), Standard Federal Bank, Citizens Bank, The Huntington National Bank, KeyBank, N.A., and Old Kent Bank. With an 8% deposit market share, MNB has the fourth largest deposit presence in the counties comprising this assessment area.

The *Lansing Assessment Area* is within the Lansing-East Lansing MSA (#4040), which is located in the central part of Michigan’s lower peninsula. The area consists of Clinton and Eaton counties and most of Ingham county. A portion of the MSA is not included in the bank’s assessment area as no MNB offices are located there. The bank serves the Lansing Assessment Area with eighteen offices. Refer to Table 4 for demographic information.

Table 4		MNB’s Lansing Assessment Area Demographic Data	
TOTAL POPULATION (1990 Census)	410,003	FAMILY INCOME CHARACTERISTICS (Based on 1990 HUD Median Family Income)	
		Count	%
		Low (below 50% of median)	19,363 20
		Moderate (50 - 79% of median)	17,679 17
		Middle (80-119% of median)	24,588 24
		Upper (120% of median or above)	38,677 39
		Total	100,307 100
MSA MEDIAN FAMILY INCOME (MFI)	\$		
1990 HUD Median Family Income	38,660		
1998 HUD Adjusted Median Family Income	50,200		

CENSUS TRACT CHARACTERISTICS (Based on HUD Median Family Income)	Tracts		Owner-Occup. Housing Units		Families		Businesses	
	Count	%	Count	%	Count	%	Count	%
Low (below 50% of median)								
Moderate (50 - 79% of median)	10	9	2,742	3	5,072	5	1,363	9
Middle (80-119% of median)	18	17	8,958	9	12,259	12	2,033	13
Upper (120% of median or above)	55	50	58,972	62	58,343	58	7,694	50
Total	26	24	24,689	26	24,633	24	4,253	28
	109	100	95,361	100	100,307	100	15,343	100

Sources: U.S. Census data; Dun & Bradstreet, Inc. business data

Note: some percentages may not add to 100% due to rounding

The area is primarily a mix of urban, suburban and rural neighborhoods, with the cities of Lansing and East Lansing being the focal point. Lansing is Michigan's capital, and East Lansing is home to Michigan State University. State government, automotive manufacturing, and education are primary industries within the region. Unemployment levels are low, at 2.1% as of September 1998. The financial market is competitive. According to June 1997 FDIC deposit information, twenty-six financial institutions operated 144 offices within the MSA. HMDA and CRA Disclosure data reflect that twenty-two financial institutions had lending volumes in excess of 250 loans during 1997. With its 16% deposit share, MNB has the second largest presence in the MSA, just behind National City Bank. Other primary competitors are Community First Bank, Comerica Bank, and Old Kent Bank.

The ***Benton Harbor Assessment Area*** consists of a large section of Berrien County and is within the Benton Harbor MSA (#0870). A portion of the MSA is not included in the bank's assessment area as no MNB offices are located there. The bank serves the Benton Harbor Assessment Area with four offices. Refer to Table 5 for demographic information.

Table 5 MNB's Benton Harbor Assessment Area Demographic Data								
TOTAL POPULATION (1990 Census)		148,400		FAMILY INCOME CHARACTERISTICS (Based on 1990 HUD Median Family Income)				
					Count	%		
				Low (below 50% of median)	8,785	22		
				Moderate (50 - 79% of median)	6,657	16		
				Middle (80-119% of median)	9,428	23		
				Upper (120% of median or above)	15,736	39		
				Total	40,606	100		
MSA MEDIAN FAMILY INCOME		\$						
1990 HUD Median Family Income		32,219						
1998 HUD Adjusted Median Family Income		44,200						
CENSUS TRACT CHARACTERISTICS (Based on HUD Median Family Income)	Tracts		Owner-Occup. Housing Units		Families		Businesses	
		Count	%	Count	%	Count	%	
	Low (below 50% of median)	7	15	2,018	5	3,746	9	428
	Moderate (50 - 79% of median)	4	8	2,015	5	2,646	6	639
	Middle (80-119% of median)	26	54	25,034	65	25,481	63	3,292
	Upper (120% of median or above)	11	23	9,355	24	8,733	22	1,032
	Total	48	100	38,422	100	40,606	100	5,391

Sources: U.S. Census data; Dun & Bradstreet, Inc. business data

Note: some percentages may not add to 100% due to rounding

The cities of Benton Harbor and St. Joseph are located in the north portion of the area, with the city of Niles approximately twenty-five miles to the southeast. As of September 1998, the MSA's unemployment rate of 4.1% was somewhat higher than Michigan's unemployment rate of 3.2%. The city of Benton Harbor has experienced significant economic stress in particular. In this area, MNB competes with twelve other financial institutions, which are mostly small, locally-based organizations. Other large institutions in the area include NBD Bank, Standard Federal Bank, and Old Kent Bank.

MNB's presence is limited with less than 4% of the deposit market and the seventh largest deposit base.

The *Southwest Michigan Assessment Area* consists of Cass County and a portion of St. Joseph County in southwest Michigan. This contiguous rural area is adjacent to the Benton Harbor Assessment Area. MNB's four offices are located in Cassopolis, Constantine, Dowagiac, and Edwardsburg. The only designated low- and moderate-income portions of the assessment area are within the city of Three Rivers and the Village of Vandalia. As of September 1998, unemployment levels were 3.1% for Cass County and 3.0% for St. Joseph County. While much of the area is devoted to agriculture, some manufacturing is also present. The financial market consists of large regional and local community institutions. According to June 1997 FDIC deposit data, sixteen institutions operated forty-nine offices within these two counties. MNB is one of three institutions within Cass County with a deposit share between 21% and 25%. In St. Joseph County, MNB's limited presence is represented by a single office and a deposit market share of 4%.

Table 6 MNB's Southwest Michigan Assessment Area Demographic Data							
TOTAL POPULATION (1990 Census)		74,867		FAMILY INCOME CHARACTERISTICS (Based on 1990 HUD Median Family Income)			
					Count	%	
				Low (below 50% of median)	3,286	16	
				Moderate (50 - 79% of median)	3,336	16	
				Middle (80-119% of median)	4,518	22	
				Upper (120% of median or above)	9,739	47	
				Total	20,879	100	
MEDIAN FAMILY INCOME (MFI)		\$					
Mich 1990 Nonmetropolitan HUD MFI		27,894					
Mich 1998 Nonmetropolitan HUD MFI		35,500					
BLOCK NUMBERING AREA (BNA) CHARACTERISTICS (Based on HUD Median Family Income)		BNAs		Owner-Occup. Housing Units	Families		Businesses
		Count	%	Count	%	Count	%
Low (below 50% of median)		1	4	86	<1	77	<1
Moderate (50 - 79% of median)		2	9	946	4	1,142	5
Middle (80-119% of median)		12	52	11,312	53	11,105	53
Upper (120% of median or above)		8	35	8,877	42	8,555	41
Total		23	100	21,221	100	20,879	100
						2,415	100

Sources: U.S. Census data; Dun & Bradstreet, Inc. business data

Note: some percentages may not add to 100% due to rounding

Community Contacts

As part of our evaluation, we considered information derived from members of the community, including information from contacts made during the past two years by the OCC and the other federal financial regulatory agencies. We made six contacts during the evaluation in the Detroit area, including local government economic development officials; community development

corporations focusing attention on economic development, housing, and small business initiatives; a community-based umbrella organization and a civil rights/fair banking organization. Identified credit needs were home purchase/rehabilitation financing such as FHA 203(k), gap financing for grant funds, and small (and micro) business financing. Contacts also cited the need for project pre-development and capacity-building support, such as technical assistance, and monetary support. Other suggestions included longer-term and ongoing home ownership counseling, credit and technical training in the school system, and increased use of flexible lending guidelines.

We held two contact meetings in the Lansing area with multiple participants representing housing and small business organizations and assistance groups. Identified credit needs cited included more flexible and responsive home ownership loan programs, better consortium lending efforts, additional support of home ownership counseling programs and a micro loan program, and more participation in, and knowledge of, available special housing programs.

We made one contact in Benton Harbor with a small business assistance organization. Credit needs cited included greater creativity by banks in evaluating loan requests, and expanded use of risk-sharing or consortium lending concepts. Respondent also suggested that more marketing efforts be directed toward women and minority business owners.

Conclusions with Respect to Performance Tests

Lending Test

Lending Activity

Based on the volume of loans generated during the past two years, MNB has affirmatively addressed the credit needs of its communities. Table 7 details MNB's HMDA loans and Table 8 reflects small business, small farm, and community development lending activity reportable for CRA Disclosure purposes. All 1998 information is preliminary.

Home Lending

MNB is one of the most active home improvement lenders in the state. The bank ranked third in 1996 and second in 1997 among all banks within the Detroit / Ann Arbor / Flint Assessment Area for the number of home improvement loans originated. MNB has been one of the top five home improvement lenders in each assessment area except for Benton Harbor and Jackson. Regardless, MNB's annual home improvement lending volume declined moderately during this evaluation period.

Home purchase and refinance lending activity has not been extensive, and these product lines represent a small component of the bank's lending. MNB's market share for each of these products lines in most

assessment areas is less than 1%. However, home purchase and refinance activity has been increasing. Table 7 recaps the bank's residential mortgage lending activity. Our review of HMDA data found it to be reliable.

Table 7 MNB HMDA Lending 1996, 1997 and June 1998								
Assessment Area	Home Purchase		Refinance		Home Improvement		Multi-family	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Benton Harbor Area	22	1,626	21	2,333	112	2,030	1	90
Detroit / AA / Flint	1,332	134,013	1,469	172,263	5,926	130,752	1	195
Grand Rapids Area	265	24,648	293	34,467	716	14,099	0	0
Jackson Area	8	367	1	110	4	75	0	0
Kalamazoo Area	197	10,477	89	8,540	281	5,540	0	0
Lansing Area	218	15,753	255	22,839	510	9,634	0	0
Saginaw Area	102	6,502	100	5,884	306	5,139	0	0
Southwest Mich Area	16	1,000	35	2,616	119	2,253	1	285
Total	2,160	194,386	2,263	249,052	7,974	169,522	3	570

Sources: 1996 and 1997 Aggregate HMDA data; June 1998 MNB preliminary HMDA data

Small Business and Small Farm Lending

As reflected in Table 8, MNB is an active small business lender. Small farm lending activity has been minimal. For CRA purposes, *small business loans* are defined as commercial loans originated for \$1 million or less. *Small farm loans* are defined as farming and agriculture-related business loans originated for \$500,000 or less. Our testing of CRA Disclosure report information identified material errors in the small business data reported for 1997. Management was able to provide corrected data, which enabled us to draw conclusions on most aspects of small business lending activity. We did not rely on business revenue information, however, as error rates continued to exceed 10%. Management began addressing the data collection and reporting system weaknesses during the evaluation to ensure the accuracy of future data.

Relative to the size of its deposit base, MNB's small business lending activity is considered reasonable and confirms that MNB has addressed small business credit needs. This conclusion is based on analyses of 1997 aggregate CRA Disclosure report data. We analyzed data for the Detroit-Ann Arbor-Flint CMSA for MNB and seven other active lenders (Comerica Bank, NBD Bank, National City Bank, Standard Federal Bank, The Huntington National Bank, Old Kent Bank, and Citizens Bank). These institutions originated 48% of all small business loans reported in 1997 for the area. Our analyses showed that MNB made 4.7 small business loans per \$10 million it had in deposits from the CMSA (based on June 1997 FDIC information). Loan origination rates experienced by the other banks ranged from 1.4 loans to 12.3 loans per \$10 million in deposits from the area. MNB's activity level was the fourth highest of the eight banks.

A similar analysis of the Lansing MSA showed that MNB made 4.0 small business loans per \$10 million it had in deposits from that area. MNB's rate of lending was lower than five of the other six banks used in the analysis (Comerica Bank, Citizens Bank, Community First Bank, Old Kent Bank, National City Bank and NBD Bank). Activity levels for the other banks ranged from .7 to 24 loans per \$10 million in deposits, with a weighted average of 15.5 loans. MNB's lower ranking is consistent with its traditional retail-credit lending presence in the Lansing market.

Table 8 MNB Small Business, Small Farm and Community Development Lending						
Assessment Area	Small Business Loans 1996-June 1998		Small Farm Loans 1996-June 1998		Community Development Loans 1996-June 1998	
	#	\$ (000s)	#	\$ (000s)	#	\$ (000s)
Benton Harbor Area	126	15,796	4	470	0	0
Detroit / Ann Arbor / Flint	5,132	900,854	6	773	10	26,248
Grand Rapids Area	537	81,327	0	0	1	250
Jackson Area	13	1,484	0	0	0	0
Kalamazoo Area	910	72,521	16	1,584	4	2,400
Lansing Area	502	78,485	2	460	4	4,177
Saginaw Area	282	41,850	3	950	1	88
Southwest Mich Area	125	11,020	21	3,967	0	0
Total	7,627	1,203,337	52	8,204	20	33,163

Source: CRA Disclosure Reports and adjusted MNB data

Geographic Distribution of Loans

The geographic distribution of MNB's loans has been adequate. Our primary observations are: (1) Small business loans have been reasonably distributed among all segments of the communities, including the low- and moderate-income areas. (2) The distribution of residential loans has been good in the Lansing Assessment Area and reasonable in the Benton Harbor Assessment Area. (3) The distribution of residential loans, particularly home improvement loans, has been weak in the Detroit / Ann Arbor / Flint Assessment Area. The proportion of lending is low in relation to the percentage of owner-occupied housing units located in those areas. Furthermore, the bank had not penetrated a high percentage of low- and moderate-income census tracts. (For purposes of this evaluation, "penetration" is having made one or more home loans in a tract between January 1996 and June 1998.) Regardless, lending patterns do not reflect any unexplained lending gaps. (4) Between January 1996 and June 1998, MNB originated approximately 90% of its residential home and small business loans within its assessment areas.

Home Lending

We determined that the bank's distribution of home loans is good in the Lansing Assessment Area, reasonable in the Benton Harbor Assessment Area, and weak in the Southwest Michigan and Detroit / Ann Arbor / Flint areas. In reaching these conclusions we compared the percentages of loans made in the low- and moderate-income neighborhoods to the percentage of the assessment area's owner-occupied homes located in those neighborhoods. Additionally, for each loan product, we compared MNB's market share in low-and moderate-income areas to the bank's overall market share. Table 9 reflects this information for each assessment area.

Overall, MNB originated residential loans in 88% of the census tracts within its assessment areas between January 1996 and June 1998. However, MNB's rate of penetration in the low- and moderate-income tracts has been significantly below the penetration rate for middle and upper-income tracts. While there is no CRA-related expectation for financial institutions to necessarily have lending activity in each census tract, we conducted detailed analyses that focused on low- and moderate-income tracts with no activity. We considered the number of owner-occupied housing units in each tract. For analytical purposes, we excluded tracts with less than 200 units because they have limited home loan opportunity relative to MNB's market presence. Among the remaining geographies, 19% of the low- and moderate-income tracts lacked MNB mortgage lending while only 3% of the middle- and upper-income tracts were not penetrated. We identified relatively high percentages of the low- and moderate-income tracts with no activity in the Detroit / Ann Arbor / Flint, Benton Harbor, and Southwest Michigan Assessment Areas. The areas without loan activity primarily coincide with geographic areas where MNB banking offices are few in number or distant from the unpenetrated census tracts. While lending activity has been weak in some low- and moderate-income areas, we concluded that no unexplained conspicuous gaps in lending patterns have occurred.

Table 9 MNB HMDA Geographic Market Distribution Analysis									
MNB Assessment Areas and Loan Products	1996, 1997, June 1998 Home Loans				Demographic Data		1997 Market Share Data		
	# of loans in LMI areas		% of total number of loans within LMI Geographies		% of Owner Occupied Homes		MNB overall market share	MNB Market Share in Low and Mod Areas	
	Low	Mod	Low	Mod	Low	Mod		Low	Mod
Benton Harbor Area									
Home Purchase	1	5	4.6	22.7	5.3	5.3	.7	.9	3.0
Home Refinance	0	1	0	4.8	5.3	5.3	.3	0	1.0
Home Improvement	2	7	1.8	6.2	5.3	5.3	3.3	0	6.5
Detroit / AA / Flint									
Home Purchase	45	122	3.4	9.2	7.6	16.5	.7	1.0	.5
Home Refinance	12	106	.8	7.2	7.6	16.5	.5	.1	.3
Home Improvement	215	576	3.6	9.7	7.6	16.5	9.1	5.4	6.0
Grand Rapids Area									
Home Purchase	6	15	2.3	5.7	15.5	17.0	.9	1.6	.5
Home Refinance	4	19	1.4	6.5	15.5	17.0	.8	1.1	.4
Home Improvement	11	58	1.5	8.1	15.5	17.0	6.0	1.5	5.9
Jackson Area									
Home Purchase	2	0	25	0	4.7	21.3	.4	4.3	0
Home Refinance	0	0	0	0	4.7	21.3	.1	0	0
Home Improvement	0	0	0	0	4.7	21.3	.7	0	0
Kalamazoo Area									
Home Purchase	7	22	6.5	20.6	3.6	13.9	1.0	2.3	1.1
Home Refinance	0	9	0	10.1	3.6	13.9	.6	0	.4
Home Improvement	16	28	5.7	10.0	3.6	13.9	5.3	10.8	4.2
Lansing Area									
Home Purchase	12	33	5.5	15.1	2.9	9.4	1.7	2.0	3.1
Home Refinance	7	13	2.8	5.1	2.9	9.4	1.4	1.7	.6
Home Improvement	13	49	2.6	9.6	2.9	9.4	8.2	8.2	6.9
Saginaw Area									
Home Purchase	3	7	2.9	6.9	4.6	14.7	1.0	1.2	.3
Home Refinance	1	8	1.0	8.0	4.6	14.7	.7	0	.4
Home Improvement	27	52	8.8	17.0	4.6	14.7	4.9	5.6	6.1
Southwest Mi Area									
Home Purchase	0	1	0	6.2	.4	4.5	1.0	0	3.7
Home Refinance	0	0	0	0	.4	4.5	1.5	0	0
Home Improvement	0	0	0	0	.4	4.5	8.7	0	0

Source: Aggregate 1996 and 1997 HMDA Data; 6/98 MNB preliminary HMDA data; 1990 U.S. Census data

MNB's loans are scattered throughout its assessments areas, but are most heavily concentrated near its branch offices, including those in low- and moderate-income areas.

Weak home improvement lending activity in the low- and moderate-income sections of the Detroit / Ann Arbor / Flint Assessment Area had the most significant impact on our conclusions regarding the geographic distribution of MNB's home loans. While lending levels to the low- and moderate- income portions of the Southwest Michigan Assessment Area have been minimal, we noted that MNB does not have branches in the two towns where low- and moderate-income tracts are located.

MNB's geographic distribution performance has been stronger for home purchase lending as compared to home improvement and refinance activity. This reflects that although MNB is not a significant home purchase originator, it has achieved low- and moderate-income area penetration through focused community lending efforts in some assessment areas, including Lansing and Benton Harbor.

Small Business Lending

MNB has reasonably penetrated all segments of the community for small business lending. The proportion of lending to the low- and moderate-income tract categories has been reasonably consistent with the manner in which businesses are distributed throughout the community. MNB's lending record within low- and moderate-income areas has also been comparable to what the aggregate market experienced in 1997. It is noted that the proportion of MNB's lending has been particularly good within the moderate-income sections of the Lansing area, and weak in the low-income portions of the Benton Harbor Assessment Area. Refer to Table 10 for additional information.

We reviewed small business lending patterns in the Detroit / Ann Arbor / Flint, Lansing, Benton Harbor, and Southwest Michigan Assessment Areas using 1997 data. We considered MNB's presence in the market, its overall rate of lending per 100 businesses in each area, and the number of businesses located in each geography. The bank has made a reasonable penetration in all income segments of each market, and no unexplained conspicuous gaps in lending patterns have occurred.

Table 10 MNB Small Business Lending Geographic Distribution Analysis					
MNB Assessment Areas	MNB Loans in Low- and Moderate- Income Areas 1996-June 1998		The Percentage of the Number of Loans made in Low- and Moderate-Income Areas		% of Area Businesses in Low- and Moderate- Income Areas
	#	\$(000s)	MNB 1996-June 1998	Aggregate Market 1997	
Benton Harbor Area					
Low-Income Areas	1	270	1	7	8
Moderate-Income Areas	11	733	9	11	12
Detroit /Ann Arbor / Flint					
Low-Income Areas	402	72,926	8	6	9
Moderate-Income Areas	704	115,555	14	12	13
Grand Rapids Area					
Low-Income Areas	72	9,251	13	7	7
Moderate-Income Areas	80	10,050	15	13	12
Jackson Area					
Low-Income Areas	0	0	0	16	19
Moderate-Income Areas	5	432	38	28	28
Kalamazoo Area					
Low-Income Areas	43	6,531	5	9	10
Moderate-Income Areas	60	10,114	7	12	15
Lansing Area					
Low-Income Areas	46	4,796	9	11	9
Moderate-Income Areas	102	18,895	20	13	13
Saginaw Area					
Low-Income Areas	40	7,516	14	8	9
Moderate-Income Areas	35	4,647	12	20	18
Southwest Mich Area					
Low-Income Areas	2	130	2	1	1
Moderate-Income Areas	1	35	1	2	6

Sources: Aggregate CRA Disclosure report data; adjusted MNB data; Dun & Bradstreet, Inc., business demographic information

Borrower Characteristics

MNB has served the credit needs of borrowers of all income levels to a reasonable degree, including low- and moderate-income individuals. This conclusion is based primarily on our analyses of HMDA data for the bank and the aggregate market.

Home Lending

We found the proportion of home lending to the low-, moderate-, middle-, and upper-income segments of the population to be adequate in each assessment area. We compared the percentages of loans made to low- and moderate-income borrowers and the percentages of the areas' families that are low- and moderate- income. Our analysis included a comparison of the bank's overall market shares for each product in each assessment area to its market shares for low- and moderate-income individuals. Refer to Table 11 for more information.

The bank made a good proportion of loans to moderate-income borrowers. The percentages of home improvement and home purchase loans made to moderate-income borrowers in each assessment area are similar to or greater than the percentages of moderate-income families within each respective area. For low-income borrowers, MNB performance was strong in the Lansing Assessment Area and adequate in the Detroit / Ann Arbor / Flint, Benton Harbor and Southwest Michigan Assessment Areas.

Our market share analysis of 1997 data indicated that the bank had reasonable levels of activity with the low- and moderate-income segments of the population. Its performance varied between the product lines and between the low- and moderate-income segments. However, the differences between the bank's overall market shares and its share of low- and moderate-income segments are not considered significant. In the smaller markets the differences represented a few loans. MNB's performance was particularly strong in the Lansing Assessment Area, and good in the Detroit / Ann Arbor / Flint Assessment Area. The bank's performance in the Benton Harbor and Southwest Michigan Assessment Areas was adequate.

Table 11 MNB Borrower Distribution Analysis of HMDA Loans									
MNB Assessment Areas and Loan Products	1996, 1997, June 1998 Home Loans				Demographic Data		1997 Market Share Data		
	# of loans to LMI borrowers		% of total # to LMI Borrowers		% of LMI Families		MNB overall market share	MNB Market Share to Low and Mod Income Borrowers	
	Low	Mod	Low	Mod	Low	Mod		Low	Mod
Benton Harbor Area									
Home Purchase	1	6	4.6	27.3	21.6	16.4	.7	0	.9
Home Refinance	1	3	5.0	15.0	21.6	16.4	.3	.4	0
Home Improvement	14	27	12.8	24.8	21.6	16.4	3.3	2.6	2.8
Detroit / AA / Flint									
Home Purchase	145	317	11.0	24.0	21.9	16.5	.7	.7	.7
Home Refinance	125	269	8.6	18.5	21.9	16.5	.5	.6	.4
Home Improvement	639	942	11.1	25.0	21.9	16.5	9.1	7.0	6.0
Grand Rapids Area									
Home Purchase	19	69	7.2	26.1	15.5	17.0	.9	.6	.8
Home Refinance	21	49	7.2	16.9	15.5	17.0	.8	1.1	.7
Home Improvement	55	128	7.8	18.2	15.5	17.0	6.0	5.3	5.8
Jackson Area									
Home Purchase	1	4	12.5	50.0	23.4	18.6	.4	0	.9
Home Refinance	0	0	0	0	23.4	18.6	.1	0	0
Home Improvement	0	1	0	25.0	23.4	18.6	.7	0	1.4
Kalamazoo Area									
Home Purchase	9	19	8.4	17.8	19.9	16.4	1.0	1.2	.4
Home Refinance	5	12	5.8	14.0	19.9	16.4	.6	.4	.4
Home Improvement	25	39	9.2	14.3	19.9	16.4	5.3	4.6	3.7
Lansing Area									
Home Purchase	55	64	25.7	29.9	19.3	17.6	1.7	4.0	2.1
Home Refinance	22	56	8.7	18.5	19.3	17.6	1.4	2.1	1.6
Home Improvement	66	79	13.6	16.3	19.3	17.6	8.2	8.6	7
Saginaw Area									
Home Purchase	14	20	13.7	19.6	22.3	15.7	1.0	.5	1.1
Home Refinance	13	27	13.1	27.3	22.3	15.7	.7	.4	1.3
Home Improvement	51	57	16.8	18.8	22.3	15.7	4.9	4.9	4.9
Southwest Mi Area									
Home Purchase	2	2	12.5	12.5	15.7	16.0	1.0	6.2	.6
Home Refinance	2	4	5.9	11.8	15.7	16.0	1.5	0	.6
Home Improvement	6	20	5.2	17.2	15.7	16.0	8.7	2.5	7.8

Small Business Lending

Our small business borrower characteristics analysis focused on loan size as data errors prevented us from drawing meaningful conclusions from revenue information. We observed that MNB has made loans of all sizes, including those for \$100,000 or less. From January 1996 through June 1998, 60% of MNB’s small business loans were for \$100,000 or less. This reflects MNB’s responsiveness to those who require smaller loan amounts. Table 12 compares MNB’s small business lending for three loan size categories to the aggregate market (consisting of financial institutions who report annual CRA Disclosure data). While in most cases the percentage of MNB’s loans to the smallest and middle-size categories are somewhat lower than the aggregate market percentages, MNB’s performance reflects a reasonable responsiveness to credit needs.

Table 12 MNB Small Business Lending by Loan Size		
MNB Assessment Areas and Loan Size Category	The Percentage of the Number of Loans Made in Each Loan Size Category	
	MNB 1997	Aggregate Market 1997
Benton Harbor Area		
\$100,00 or less	84	84
\$100,000 - \$250,000	3	9
Greater than \$250,000	13	7
Detroit /Ann Arbor / Flint		
\$100,00 or less	60	79
\$100,000 - \$250,000	19	11
Greater than \$250,000	21	10
Grand Rapids Area		
\$100,00 or less	62	77
\$100,000 - \$250,000	22	13
Greater than \$250,000	16	10
Jackson Area		
\$100,00 or less	80	81
\$100,000 - \$250,000	0	12
Greater than \$250,000	20	7
Kalamazoo Area		
\$100,00 or less	84	80
\$100,000 - \$250,000	8	12
Greater than \$250,000	8	8
Lansing Area		
\$100,00 or less	66	79
\$100,000 - \$250,000	18	12
Greater than \$250,000	16	9

Saginaw Area		
\$100,00 or less	61	82
\$100,000 - \$250,000	17	10
Greater than \$250,000	22	8
Southwest Mich Area		
\$100,00 or less	75	87
\$100,000 - \$250,000	15	7
Greater than \$250,000	10	6

*Sources: Aggregate CRA Disclosure report data;
adjusted MNB data*

Community Development Lending

MNB's community development lending performance reflects a general responsiveness to addressing the needs of the market. As reflected in Table 8, MNB originated twenty community development loans totaling \$33 million during the evaluation period. *Community Development Loans* are generally defined as loans that have community development as their primary purpose, as described by the CRA, and have not been reported as small business loans or one-to-four family loans for HMDA purposes.

The majority of MNB's community development loans support efforts to stabilize and revitalize low- and moderate-income areas. This included loans to entities in or being established in the Detroit Empowerment Zone. Stabilizing efforts were also supported by loans to entities in Battle Creek, Lansing, and Flint. Six loans were made to support affordable housing projects in Battle Creek, Lansing, Marysville, and Saginaw. Loans to organizations providing services targeted to low- and moderate-income individuals were made in Detroit, Kalamazoo, and Lansing.

In addition to the \$33 million of community development loans, MNB also originated small business loans that have community development characteristics. While not considered community development loans by definition, the characteristics of these loans reflect MNB's responsiveness to supporting community development initiatives.

Innovative and Flexible Lending Practices

MNB employs flexible lending practices that help address the needs of the low- and moderate-income segments of the community. MNB offers mortgage products that have flexible underwriting terms featuring low down payment and extended debt-to-income ratios. In 1998 the bank introduced its "Home Buyer's Edge" product. It provides low- and moderate- income borrowers with a mortgage loan requiring a very low level of borrower funds. Since its introduction, the bank has generated fifty loans totaling \$3.6 million. Custom MNB loan programs are in place to work with neighborhood housing organizations such as Neighborhoods, Inc. of Battle Creek. MNB is also a leader in U.S. Small Business Association (SBA) financing. Most SBA loan customers have obtained credit whereas they would not have qualified for a similar loan under standard MNB underwriting criteria.

Investment Test

MNB's investment activities have demonstrated an adequate level of responsiveness to the credit and economic development needs of its communities. This conclusion is based on (1) MNB's successful establishment of a CDC during the rating period; (2) the overall level of qualified investments MNB has made; and (3) investment activity, which has occurred in each of the bank's assessment areas.

Qualified investments include direct investments and grants made by the bank made to local organizations to support community development initiatives. In 1997 and 1998, qualified investments totaled \$3.6 million. Relative to MNB's asset size, capital levels, and deposit base, this level of investment activity was generally lower than that of other banks. However, we concluded that MNB's successful establishment of an active CDC warrants positive consideration, and supports the bank's assigned rating for this performance test.

In 1997, the bank established Michigan National Bank Community Development Corporation (MNBCDC), which is a wholly owned subsidiary of MNB, with a \$3 million investment. Its primary purpose is to promote community and economic development, stability, and growth for low- and moderate-income persons and economically disadvantaged communities within MNB's assessment areas. During its first year of operation, MNBCDC deployed nearly all of its available funds by making loans that do not satisfy the bank's normal underwriting criteria. MNBCDC loans have supported affordable housing initiatives, organizations serving low- and moderate-income individuals, neighborhood revitalization efforts, and small businesses. MNBCDC has made loans in Detroit, Kalamazoo, Lansing, Pontiac, and Saginaw.

In each of its assessment areas, MNB has provided grants to organizations conducting community development activities. Grants primarily funded affordable housing, low- or moderate-income area economic development initiatives, or supported the provision of social services targeted primarily toward low- and moderate-income persons. Between January 1997 and September 1998, MNB's qualified community development grants were nearly \$497,000. Summarized by assessment area the grants were: Benton Harbor \$2,250; Detroit / Ann Arbor / Flint \$396,000; Grand Rapids \$18,000; Jackson \$1,500; Kalamazoo \$13,500; Lansing \$41,000; Saginaw \$23,500; Southwest Michigan \$1,000.

Service Test

MNB supports its communities through service-oriented activities to an adequate degree. This conclusion is based on the following: 1) Banking offices are accessible to the various segments of the community; 2) extended office hours and weekend banking are offered; and 3) community development service levels have been adequate.

Retail Banking Services

MNB has 194 banking offices located throughout its assessment areas. Full service ATMs are located at all but five locations, and are complemented by a network of offsite ATMs. Table 13 shows the distribution of branches and full service ATMs throughout the assessment areas. While the percentages of offices located in low-income and moderate-income areas are somewhat lower than the percentages of families residing in those sections of the assessment areas, we determined that overall,

MNB offices are adequately distributed throughout each area. It is noted, however, that the number of offices located in low-income neighborhoods of the Detroit MSA are particularly low when compared to the percentage of the MSA's population residing in those neighborhoods.

Table 13 MNB Distribution of Delivery Systems						
Assessment Area	Banking Centers		Full Service ATMs		Assessment Area Characteristics	
	Number	% of Area Total	Number	% of Area Total	Distribution of Tracts (%)	Distribution of Families (%)
Benton Harbor Area						
Low Income tracts	0	0	0	0	15	9
Moderate Income tracts	1	25	1	25	8	7
Middle Income tracts	2	50	2	50	54	63
Upper Income tracts	1	25	1	25	23	22
Area Totals	4	100	4	100	100	100
Detroit /Ann Arbor / Flint						
Low Income tracts	6	5	9	5	17	12
Moderate Income tracts	16	12	17	10	16	15
Middle Income tracts	56	43	77	45	41	44
Upper Income tracts	53	40	68	40	25	29
Area Totals	131	100	171	100	99*	100
Grand Rapids Area						
Low Income tracts	2	11	2	8	7	3
Moderate Income tracts	3	16	2	8	12	9
Middle Income tracts	9	47	12	50	58	62
Upper Income tracts	5	26	8	33	23	26
Area Totals	19	100	24	100	100	100
Jackson Area						
Low Income tracts	0	0	0	0	18	9
Moderate Income tracts	0	0	0	0	27	22
Middle Income tracts	1	100	1	1	41	53
Upper Income tracts	0	0	0	0	9	16
Area Totals	1	100	1	100	95*	100
Kalamazoo Area						
Low Income tracts	1	14	3	21	10	5
Moderate Income tracts	1	14	1	7	19	16
Middle Income tracts	2	29	4	29	38	40
Upper Income tracts	2	29	5	36	29	38
N/A tracts (unclassified)	1	14	1	7	4	0
Area Totals	7	100	14	100	100	100

Sources: Bank records; U.S. Census data

Notes: * Does not total to 100% as some tracts are unclassified.
Some areas do not add to 100% due to rounding
Multiple ATMs at a single location are counted as a single unit

Table 13 - continued MNB Distribution of Delivery Systems						
Assessment Area	Banking Centers		Full Service ATMs		Assessment Area Characteristics	
	Number	% of Area Total	Number	% of Area Total	Distribution of Tracts (%)	Distribution of Families (%)
Lansing Area						
Low Income tracts	1	6	1	4	9	5
Moderate Income tracts	4	22	5	19	17	12
Middle Income tracts	6	33	7	27	50	58
Upper Income tracts	7	39	13	50	24	25
Area Totals	18	100	26	100	100	100
Saginaw Area						
Low Income tracts	1	10	1	6	14	7
Moderate Income tracts	1	10	1	6	19	16
Middle Income tracts	7	70	14	82	49	54
Upper Income tracts	1	10	1	6	18	22
Area Totals	10	100	17	100	100	100
Southwest Mich Area						
Low Income tracts	0	0	0	0	4	1
Moderate Income tracts	0	0	0	0	9	5
Middle Income tracts	2	50	2	50	52	53
Upper Income tracts	2	50	2	50	35	41
Area Totals	4	100	4	100	100	100

Sources: Bank records; U.S. Census data

Notes: Some areas do not add to 100% due to rounding
Multiple ATMs at a single location are counted as a single unit

We assessed MNB’s branching structure within each of the three individual MSAs within the Detroit / Ann Arbor / Flint Assessment Area. In the Detroit MSA, only 3% of MNB Detroit MSA offices are located in low-income neighborhoods while 13% of the area’s population resides in that segment of the Detroit MSA assessment area. The number of MNB offices serving the moderate-income segments of the Detroit MSA represents 10% of its Detroit MSA offices while 15% of the population is located in those neighborhoods. The relatively low number of offices serving these segments of the market is reflected by weaknesses in MNB’s geographic distribution of home loans, discussed under the *Lending Test*. In both the Ann Arbor MSA and Flint MSA the percentages of MNB branches in low-income and moderate-income segments are comparable to or exceed the percentages of families residing in those respective segments of those MSAs.

The Lansing Assessment Area reflects a proportionally higher percentage of offices in low- and moderate-income segments as compared to the percentage of families located in that area. The percentages of offices located in the low- and moderate-income sections of the Benton Harbor and Southwest Michigan Assessment Areas are reasonable in relation to the demographics of those areas. When drawing our conclusions, we considered how the limited number of MNB offices in the Benton Harbor and Southwest Michigan areas impact the meaningfulness of percentage figures.

Branches serving the low- and moderate-income neighborhoods offer products and services in a manner consistent with branches in the other segments of the community, as MNB products and services are available through all locations. The only exceptions are three “sales offices,” which are located in Grand Rapids, Midland, and Saginaw. Sales offices are licensed as branches so that deposits can be accepted. However, traditional teller lines are not maintained and all banking services are not routinely conducted.

MNB has twenty-seven banking offices located in grocery stores. While these facilities have limited staffing, they provide access to all bank products and services. The offices feature extended lobby hours and provide for Saturday and Sunday banking. The offices are located in middle-income and high-income neighborhoods, with the exception of one office in a moderate-income part of Detroit and one in a moderate-income area of Lansing. Regardless, the offices do provide increased banking accessibility to residents, including those who are low- and moderate-income.

Traditional banking center hours of operation are tailored to the needs of the surrounding area. Extended hours on Fridays are common, with lobbies being open until 6:00 p.m. Lobby hours are maintained on Saturdays in 30% of all offices, including 28% of the offices located in low- and moderate-income areas. Some additional offices, including some in low- and moderate-income areas, maintain drive-through facilities with Saturday hours.

Changes in Branch Location

Since the last CRA evaluation, branching activities have not had a significant impact on the community. During this period, the bank opened six new offices and closed twelve offices. In addition, the bank moved two offices and changed three offices to sales offices. Most activity occurred in the Detroit metropolitan area, where the bank closed seven offices, opened five offices, and move one office.

Of the twenty-three branch changes described above, four offices were in low- or moderate-income areas. The bank closed one office in Detroit (low-income) and one office in Battle Creek (low-income). It opened one office in Pontiac (moderate-income) and changed one office in Grand Rapids (low-income) from a full service banking center to a sales office. While the impact of closing offices, particularly those in low- and moderate-income areas, is weighed into our conclusions, we gave

positive consideration to the opening of the Pontiac office. MNB did not previously have a presence in the city of Pontiac, which is a predominately low- and moderate-income suburb of Detroit.

Alternative Delivery Systems

The bank's 261 full service ATMs at branch offices and off-site locations provide opportunity for customers to conduct banking business twenty-four hours a day. Table 13 reflects how the ATMs are distributed within the community. While ATMs improve accessibility to banking for individuals in all income categories, few of MNB's off-site ATMs are located in low- and moderate-income neighborhoods.

A 24-hour telephone banking service is available to conduct account activities. Individuals can also apply for mortgage and consumer loans over the telephone from 7:00 a.m. to 9:00 p.m. An MNB study of July and August 1998 telephone-based consumer loan applications showed that 29% of applications were received by applicants located in low- and moderate-income areas. This supports that this delivery system has improved MNB's way of serving individuals in those areas.

MNB's Internet site allows loan applicants to fill out consumer and business loan and deposit account applications. Furthermore, on-line banking is offered through MNB's "web banking package." Subscribers can retrieve account information, initiate an array of transactions, and communicate with MNB through electronic mail. The bank has also developed Internet product packages for small and middle-market business customers. MNB's Internet programs are available to individuals and business of all income categories and areas. However, data is not available to demonstrate the extent that the Internet products are used by the low- and moderate-income segments of the community. Therefore, we could not place significant weight on the Internet programs when drawing our CRA performance conclusions. Nevertheless, such programs demonstrate MNB's commitment to implementing alternative ways to deliver products to the market.

Community Development Services

MNB provides community development services and participates in community development initiatives in each of its assessment areas to an adequate degree. At times, the bank has taken on leadership roles with these activities. Examples of services MNB has provided are briefly described below:

- o Bank officers and employees have actively served in leadership capacities with local community development organizations. This includes serving on the boards of directors at Habitat for Humanity chapters, Local Initiative Support Corporation, local housing groups addressing affordable housing needs, and small business organizations.

- o Bank officers and employees have provided technical assistance to organizations conducting community development activities and programs. Examples include supporting a pilot SBA loan program; serving on loan committees of CDCs; providing assistance in developing a Community Development Bank; and providing expertise for affordable housing, services targeted toward low- and moderate-income individuals, and small business financing initiatives.
- o MNB and its employees have sponsored, co-sponsored, and participated in various financial education workshops and seminars targeted to low- and moderate-income . Topics have included residential mortgage financing, housing issues, credit reports, banking products, and small business financing.
- o The SBA and government officials from the State of Michigan have recognized a bank officer, in his capacity at MNB, as a leader in assisting small businesses obtain financing.

We gave some positive consideration to MNB's offering of a low-cost checking account. MNB also offers a savings account product targeted toward low- and moderate-income individuals to assist them in achieving savings goals. The account features no minimum balances and no transaction limits.

MNB has assisted some low- and moderate-income individuals in obtaining mortgage financing from other sources when they did not qualify under MNB lending criteria. In 1998, the bank originated loans to fifteen low-income applicants and nine moderate-income applicants through this referral process. While MNB receives a fee, we gave some positive consideration to MNB for helping facilitate financing in this manner.

Fair Lending Review

MNB employs effective fair lending practices. This conclusion is based on a review of underwriting policies, and through a review of home purchase mortgage application files. We analyzed mortgage loan application activity for the one-year period of July 1997 through June 1998. All denied and withdrawn minority applications for home purchase loans were reviewed and compared to a sample of white applicants who had been granted credit. We reviewed 160 files. We did not identify violations of the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, Fair Housing Act, or Home Mortgage Disclosure Act.

**Conclusions with Respect to Performance Tests in the
Detroit-Ann Arbor-Flint, Michigan Consolidated MSA
(MSAs #2160, #0440, and #2640)**

MNB's performance in the Detroit-Ann Arbor-Flint CMSA is consistent with the bank's overall performance. The bank rating was assigned with primary consideration given to performance in this area as the CMSA represents a substantial portion of the bank's operations and community.

Lending Test

- C MNB provides a variety of residential real estate and small business loans that reasonably address the local credit needs. The bank is a significant home improvement lender, with a market ranking of two in 1997. MNB ranked thirty-fifth and forty-fifth respectively for home purchase and refinance lending. The bank is an active small business lender, as reflected in Table 8.

- C The geographic distribution of small business loans, as reflected in Table 10, is consistent with the business demographics of the area. The majority of the small business loans were in amounts of \$100,000 or less, demonstrating MNB's willingness to extend credit to borrowers needing smaller loan amounts. Refer to Table 12 for more information.

- C The geographic distribution of residential loans is weak, as reflected in Table 9. The proportion of residential home purchase, improvement and refinance loans in low- and moderate-income areas is low in relation to the area's demographics. Similarly, the bank has lower market shares in low- and moderate-income census tracts than in the market as a whole. (The one exception to this statement is home purchase lending in low-income areas.) A primary contributing factor to MNB's weak performance in the CMSA is a relatively low level of lending in the city of Detroit. A large proportion of the assessment area's low- and moderate- income census tracts are located in Detroit.

We found no unexplained conspicuous gaps in lending patterns. However, 20% of low- and moderate-income census tracts had no MNB lending activity during the evaluation period. This is high compared to the middle- and upper-income tracts where only 4% had no activity. In making this comparison, we considered tracts with less than 200 owner-occupied housing units to have limited lending opportunities. We excluded these tracts for analytical purposes. The majority of tracts without lending activity were in the Detroit metropolitan area. This included areas both in and outside of the city of Detroit. The primary reason for the lower penetration is the limited presence of MNB banking offices in these areas.

- C The distribution of residential loans to borrowers of different income levels is reasonable. Refer to Table 11 for additional information. For each loan type, the proportion of loans to moderate-income borrowers has equaled or exceeded the percentage of moderate-income families in the area. The proportion of loans to low-income borrowers is much lower than the percentage of low-income families in the area. Considering the relatively high level of families living below the poverty level in Detroit (19%) and Flint (16%) who may not qualify for home ownership, MNB's performance is acceptable. MNB's market shares of low- and moderate-income borrowers is substantially similar to its overall market share for home purchase and refinance lending and somewhat lower for home improvement loans.
- C MNB extended ten community development loans totaling \$26 million. The loans were primarily made to organizations located in Detroit's Empowerment Zone.

Investment Test

- C Investment levels in the Detroit / Ann Arbor / Flint Assessment Area have been adequate. The area has benefited from several loans made by MNBCDC in Detroit and Pontiac. From January 1997 through September 1998, qualified grants totaled \$396,000.

Service Test

- C Branches and ATMs are adequately accessible to the assessment area, although Table 13 reflects that the proportion of facilities located in low-income areas is lower than the percentage of the area's families residing there. This is primarily due to the fact that only 3% of MNB Detroit MSA offices are located in low-income neighborhoods while 13% of the area's population resides in that segment of the Detroit MSA. In both the Ann Arbor MSA and Flint MSA, the percentages of MNB branches in low-income and moderate-income segments are comparable to or exceed the percentages of families residing in those respective segments of the markets. Branching activities have not materially impacted the community.
- C MNB has actively provided community development services. Several examples of organizations which MNB officers and employees have worked with or provided technical assistance to are: Ann Arbor CDC, Small Business Administration, Livingston County Habitat for Humanity, Detroit Neighborhood Housing Services, Lighthouse of Oakland County, Port Huron Neighborhood Housing, and Flint Neighborhood Preservation Project, Inc.

Conclusions with Respect to Performance Tests in the Lansing-East Lansing, Michigan MSA (MSA #4040)

MNB's performance in the Lansing-East Lansing MSA is consistent with the bank's overall performance, with some performance criteria reflecting performance at higher levels.

Lending Test

- C MNB provides a variety of residential real estate and small business loans that reasonably address the local credit needs. MNB is a significant home improvement lender in this market, ranking third in 1997 and first in 1996 in loan volume. Although ranking sixteenth and twenty-third in loan volume for home purchase and refinance lending respectively, they are the highest market shares obtained by MNB for these products in all of its assessment areas.

- C The geographic distribution of residential loans has been good. Refer to Table 9. There were no conspicuous gaps in the bank's lending activity and credit was extended in more than 90% of all census tracts. The percentage of home improvement and home purchase loans made in low- and moderate-income areas approximates or exceeds the demographic mix of owner-occupied homes. Market share analyses also reflect good performance. This is especially recognized for lending in low-income areas. For each product line, MNB's share of lending in that segment of the community equaled or exceeded its overall market share.

- C The geographic distribution of small business loans has been good. Table 10 reflects that MNB's lending activity in the low- and moderate-income areas of the assessment area is consistent with the percentage of businesses located there, and similar to the manner in which the aggregate market extended loans.

- C The distribution of loans among residential borrowers of different income levels is good. The percentage of loans made to moderate-income borrowers approximates or exceeds the percentage of moderate-income families in the area. Among low-income borrowers, the percentage of home purchase loans significantly exceeds the markets demographics of low-income families but is somewhat below the demographic mix for home improvement and refinance loans. Comparisons by market share reflect strong performance. The bank's market share of low- and moderate-income borrowers exceeds its overall market share for each product. The one exception to this is home improvement lending to moderate-income borrowers which is slightly below the bank's overall market share.

- C Community development lending is reasonable. Community development loans have supported low- and moderate-income neighborhood stabilization efforts, affordable housing, and the provision of community services to low- and moderate-income individuals. Refer to Table 8.

Investment Test

- C Investment levels in the Lansing Assessment Area have been reasonable. The area has benefited from lending activity by MNBCDC. Qualified grants from January 1997 through September 1998 totaled \$41,000. A \$100,000 investment originally made in 1993 remains outstanding to support a local non-profit housing corporation focusing on rehabilitating and upgrading housing in low-income neighborhoods.

Service Test

- C Banking offices and ATMs are readily accessible to all portions of the assessment area. Table 13 reflects that the percentage of offices located in low- and moderate-income census tracts is higher than the percentage of assessment area families located in those neighborhoods. Branching activities did not materially impact the community. One office located in an upper-income area was closed during this evaluation period.
- C MNB has actively provided community development services. Several examples of organizations which MNB officers and employees have worked with or provided technical assistance to are: Housing Resource Center, Lansing Neighborhood Housing Corporation, Lansing Community Micro Enterprise Loan Fund, and St. Stephen's Community Non-Profit Housing Corporation.

Conclusions with Respect to Performance Tests in the Benton Harbor, Michigan MSA (MSA #0870)

MNB's overall performance in the Benton Harbor MSA is consistent with the bank's overall performance, with some performance criteria reflecting performance at lower levels. The bank's performance within this area was considered in assigning the bank's overall rating, although this area represents a small portion of MNB's operations and community.

Lending Test

- C MNB provides a variety of residential real estate and small business loans that reasonably address the local credit needs. MNB's presence in this market is limited. In 1997 it ranked sixth in home improvement loans, twenty-fifth for home purchase and forty-seventh for home refinance loan volume.

- C The geographic distribution of residential loans is reasonable. Refer to Table 9. While volumes are low, the proportion of loans made in moderate-income areas have been generally favorable in comparison to area demographics and the bank's market share. However, home improvement and refinance lending was lacking in the low-income geographies. We identified no conspicuous gaps in the bank's lending activity and credit was extended in 77% of the area census tracts. This is adequate given the bank's presence in this market.

- C The proportion of small business loans originated in moderate-income areas has been somewhat lower than the percentage of businesses located there, but within a reasonable range. Small business lending in low-income areas has been minimal. Refer to Table 10.

- C The distribution of residential loans by income level of the borrower is adequate. Refer to Table 11. The bank has a higher percentage of its loans to moderate-income borrowers than the demographic percentage of moderate-income families. The proportion of loans to low-income borrowers is less than the demographics. Market share analysis also indicates that the bank's market share to low- and moderate- income borrowers approximates MNB's overall market shares for individual products.

- C There were no community development loans granted in Benton Harbor during this evaluation period.

Investment Test

- C Investment levels in the Benton Harbor Assessment Area have been minimal. They have consisted of qualified grants totaling \$2,250 from January 1997 through September 1998. This level of performance is below that of the overall bank.

Service Test

- C Banking offices are reasonably accessible to the assessment area. As reflected in Table 13, MNB serves this area with four offices located in Benton Harbor, St. Joseph, Berrien Springs, and Niles. With a limited presence in this part of the state, this distribution serves the community to a reasonable degree. No offices were opened or closed during this evaluation period.
- C MNB has provided some community development services. Organizations which MNB officers and employees have worked with or provided technical assistance to include Benton Harbor Housing Connection and Niles Community Development Corporation.

Performance in Areas of Limited Review

For each of the four MNB assessment areas where we performed a limited review, (Grand Rapids, Jackson, Kalamazoo, and Saginaw Assessment Areas), we determined that the bank’s overall CRA performance is consistent with that of the bank as a whole. Data for each assessment area are provided within the *Lending, Investment, and Service Test* sections of this evaluation. Table 14 and the comments below provide general information on the bank’s operations in each area. Refer to Table 2 for information on how each of MNB’s assessment areas correspond to the bank as a whole.

Assessment Area	MNB Deposits \$(000's)	Number of MNB Offices	Number of Families	Number of Own-Occ. Housing Units	Number of Businesses	9/98 MSA Unemployment Rate	1998 Updated HUD MFI
Grand Rapids Area	557,379	19	171,148	167,761	27,195	2.6%	50,100
Jackson Area	787	1	19,427	18,480	2,982	3.1%	44,900
Kalamazoo Area	316,535	7	92,906	90,675	14,526	2.8%	45,100
Saginaw Area	255,506	10	92,671	91,883	12,414	3.3%	46,500

Sources: June 30, 1997 FDIC information; MNB internal reports; 1990 U.S. Census data; Dun & Bradstreet business demographic data; Michigan Unemployment Agency.

The **Grand Rapids Assessment Area** is within the Grand Rapids-Muskegon-Holland, Michigan MSA (#3000) and consists of Kent County and portions of Allegan and Ottawa counties. Of the assessment area’s 139 census tracts, ten (7%) are designated low-income and seventeen (12%) are moderate-income. The area includes the metropolitan Grand Rapids and the City of Holland to the west. MNB has a long-established presence in Grand Rapids.

The **Jackson Assessment Area** is within the Jackson, Michigan MSA (#3520) and consists of twenty-two census tracts. Four tracts (18%) are low-income while six tracts (27%) are moderate-income. MNB established its single branch in the City of Jackson in 1996.

The **Kalamazoo Assessment Area** is within the Kalamazoo-Battle Creek, Michigan MSA (#3720) and consists of Calhoun and Kalamazoo counties. Ten of the assessment area’s 100 census tracts are low-income and nineteen are moderate-income. The cities of Kalamazoo, Battle Creek, and Marshall are population centers. MNB has had a long presence in this area.

The **Saginaw Assessment Area** consists of a portion of the Saginaw-Bay-Midland, Michigan MSA (#6960). The cities of Saginaw, Bay City, and Midland are the population centers. Of the assessment

area's eighty-eight census tracts, twelve (14%) are low-income and seventeen (19%) are moderate-income. MNB has a long-established presence in this area.

APPENDIX

Scope of Evaluation

The evaluation assessed MNB's CRA performance as outlined below:

- C The Benton Harbor, Detroit / Ann Arbor / Flint, Lansing, and Southwest Michigan Assessment Areas were evaluated using full on-site examination procedures. The Grand Rapids, Kalamazoo, Jackson, and Saginaw Assessment Areas were evaluated using limited procedures. We selected areas for full procedures to provide coverage of a significant majority of the bank's operations and community, while also providing a mix of large, middle, and rural market areas. Refer to Table 2.
- C The period of review was September 30, 1996 (the date of the last evaluation) to September 30, 1998. Loan information from 1996 through June 1998 was used for analytical purposes.
- C Primary loan data used consisted of: aggregate 1996 and 1997 HMDA data, and preliminary MNB 1998 data through June; aggregate 1996 and 1997 CRA Disclosure data; adjusted MNB 1997 CRA Disclosure and preliminary 1998 MNB data through June; and adjusted 1997 and 1998 MNB community development loan information.
- C No affiliate lending performance was considered.
- C Qualified investments made by MNB were considered. This included grant activity from 1997 and 1998 through September as this was the information readily available.
- C Branch activities between September 30, 1996 and September 30, 1998 were considered.
- C Community development services performed between September 30, 1996 and September 30, 1998 were considered.