



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 1, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Negaunee
Charter Number: 3717**

**350 Iron Street
Negaunee, MI 49866**

**Comptroller of the Currency
Iron Mountain Field Office
P.O. Box 666
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NOTE: This document is an evaluation of this 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. 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 Community Reinvestment Act (CRA) performance for the First National Bank of Negaunee, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of July 1, 2002. 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**.

- The bank originates a substantial majority of loans inside its assessment area.
- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- The bank has a reasonable dispersion of loans throughout its assessment area.
- The bank's lending activities represent an adequate penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION:

The First National Bank of Negaunee is a \$102 million bank with the main office located in Negaunee, Michigan, a middle-income block numbering area (BNA). Tier one capital as of March 31, 2002 was \$8 million. The bank operates six full-service branches, which are located in the following areas: Negaunee (upper-income BNA), City of Marquette (middle-income BNA), Marquette Township (middle-income BNA), Champion (middle-income BNA), Palmer (middle-income BNA), and Harvey (upper-income BNA). The branch located in the City of Marquette was opened in May 2001. The bank maintains seven ATMs. This includes one at each branch, excluding the Palmer and Champion branches along with the main office, and stand-alone machines at the Koski Korner's Store in Champion, the Super One grocery store in Marquette and the Westwood Mall in Marquette. All branch ATMs have 24-hour access, with the stand-alone units being accessible during normal business hours. The ATM located at the Westwood Mall was installed in August 2000. The bank is wholly owned by Marquette County Financial Corporation (MCFC), a \$142 million two-bank holding company located in Negaunee, Michigan. The holding company also wholly owns The First National Bank of Calumet-Lake Linden, a community bank located in the northern Upper Peninsula of Michigan.

The bank offers traditional community bank services with a loan portfolio representing 73% of total assets as of March 31, 2002. The First National Bank is primarily a small business and

residential real estate lender. The bank's loan portfolio consists of 52% residential real estate mortgages, 44% commercial loans, and 4% consumer loans.

There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

The previous CRA examination dated October 16, 1997 resulted in a satisfactory CRA rating.

DESCRIPTION OF THE ASSESSMENT AREA:

The assessment area includes all of Marquette County. This area includes three moderate-income (11% of total BNAs), 12 middle-income (45% of total BNAs), 10 upper-income (37% of total BNAs) and two BNAs where income designation was not available (7% of total BNAs). No low-income BNAs are located in the assessment area. Two of the moderate-income BNAs are located near Northern Michigan University, with the other being K.I. Sawyer, a former air force base. The two BNAs that were not income designated consist of a local prison and an iron ore barge that was in port on the day of the census count. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The population of the assessment area is 70,887, based on 1990 census data. The updated Housing and Urban Development (HUD) 2001 median family income for non-metropolitan areas in Michigan is \$42,700. This amount is used in the test of lending to borrowers of different incomes. The 1990 census median family income for non-metropolitan areas in Michigan is \$27,893, and is used in the geographic distribution of loans test. A breakdown of family income levels in the assessment area shows 16% as low-income (2,958 families), 19% as moderate-income (3,427 families), 22% as middle-income (3,900 families) and 43% as upper-income (7,808 families). A total of 1,754 families have incomes below the poverty level. This represents 59% of the total number of low-income families in the assessment area. The median housing value within the assessment area is \$45,207, with 53% of the housing units being owner-occupied.

The local economy is characterized as stable with little change in industry or individual demographic composition. Tourism, a state university, a regional medical center, and iron ore mining make up the major employers in the area. Unemployment in Marquette County continues to be above state levels but has declined in 2002, with an average of 9.4%. This percent approximates the 2002 average for the Upper Peninsula of 9.5%. Credit needs of the assessment area consist of traditional residential mortgage and consumer loan products along with noncomplex commercial loan products.

Competition among financial institutions remains strong in the local market. Branches of two multi-state banks, branches of two large Michigan state banks, branches of one similarly sized Michigan state bank, main office and branches of another similarly sized Michigan state bank, and several local credit unions are located in the bank's assessment area. Based on the latest deposit market share information from June 30, 2001 compiled by the FDIC, The First National Bank of Negaunee, with a market share of 14%, ranks second out of all FDIC-insured institutions with at least one branch located in Marquette County. A large multi-state bank holds

the top position, accounting for nearly 42%. The other 44% is divided among 5 institutions, with market shares ranging from 6% to 13%.

In conducting this assessment of the bank’s performance, we contacted the owner of a local real estate/insurance agency. This individual believes that the credit needs of the community are being met by the local financial institutions. With the strong competition among lenders in the area, he considers access to credit by borrowers in all income levels to be satisfactory.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is reasonable given its size, financial condition, and credit needs of the community. The average quarterly loan-to-deposit ratio for the bank since the last examination is 87%, which ranks second in their peer group of three banks. The peer group consists of banks with assets less than \$250 million that are chartered within 50 miles of First National Bank. The First National Bank has the largest level of average assets of these banks at \$102 million. The other banks’ average assets ranged from \$59 million to \$91 million. The average loan-to-deposit ratios for the similarly situated banks ranged from 61% to 88% over the same time period.

Lending in Assessment Area

The bank originates a substantial majority of its loans inside its assessment area. This conclusion is based on an analysis of the original dollar amount and number of all commercial, residential real estate and consumer loans originated or refinanced by the bank between January 2000 and June 2002. A comparison of zip code and BNA boundaries indicated they are similar; therefore, the location of borrowers with loans in the selected time period was determined using their zip code as a proxy for the BNA address. A system report sorted by zip code and loan type was generated to complete the analysis. The following table illustrates the level of lending inside the bank’s assessment area:

| Penetration of Lending Inside the Bank’s Assessment Area January 2000 – June 2002 Loan Originations | | |
|--|--|---|
| | % of Total Number of Loans Inside the Assessment Area | % of Total Dollar Amount of Loans Inside the Assessment Area |
| Commercial Loans | 93% | 87% |
| Consumer Loans | 95% | 96% |
| Residential Real Estate Mortgages | 93% | 92% |
| Total | 94% | 90% |

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

The bank's lending practices represent a reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers, and businesses of different sizes. The bank's primary loan products were used in our sample and are depicted in the following tables. A sample of 30 commercial customers located in the bank's assessment area indicates the following breakdown of annual revenues:

| Lending Distribution Based on Revenue Size of Businesses January 2000 – June 2002 | | | |
|--|---|----------------|---|
| Revenue Size of Businesses Sampled (000's) | Bank Lending Distribution by Number of Loans | Percent | Percentage of Businesses in Each Revenue Category (census information) |
| < \$100 | 3 | 24% | 86% |
| \$100 - \$500 | 10 | 10% | |
| \$500 - \$1,000 | 4 | 33% | 6% |
| > \$1,000 | 6 | 20% | 8% |
| Revenue not Reported | 7 | 13% | - |
| Totals: | 30 | 100% | 100% |

The table above shows 80% of the businesses sampled have revenues less than \$1 million. Loans for businesses with unreported revenues include loans where no income information was evident in the loan file. These businesses are included in the less than \$1 million revenue category because it can be reasonably inferred from the type of business that gross revenues are under \$1 million.

The following table is based on an analysis of 60 refinanced residential real estate mortgage loans containing income information for the borrower. These customers are located within the bank's assessment area and were randomly selected from all refinanced residential real estate mortgages originated since January 1, 2000.

| Lending Distribution Based on Income Level of Refinanced Residential Real Estate Borrowers January 2000 – June 2002 Loan Originations | | | |
|--|---|---|--|
| Borrower Income Level | Bank Lending Distribution by Number of Loans | Bank Lending Distribution by Dollar Value of Loans | Percentage of Families in each Income Category (Census information) |
| Low | 10% | 6% | 16% |
| Moderate | 8% | 3% | 19% |
| Middle | 35% | 25% | 22% |
| Upper | 47% | 66% | 43% |
| Totals | 100% | 100% | 100% |

As indicated by the above table, 18% of the number and 9% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 35% of the assessment area's population. This represents an adequate distribution of lending to borrowers of different income levels. The lower percentage of dollars loaned to low- and moderate-income borrowers is indicative of the smaller loans that are typically made to customers in these income ranges. In addition, more than one-half (59%) of the low-income families in the assessment area are below the poverty level. These families would not typically qualify for real estate mortgage loans.

Geographic Distribution of Loans

Our analysis of the commercial and refinanced residential real estate mortgage loans sample above also indicates The First National Bank of Negaunee has a reasonable dispersion of loans throughout its assessment area, with lending evident in a majority of the BNAs. This is illustrated in the following table:

| Geographic Distribution Based on Number and Dollar Amount of Loans Made in Assessment Area January 2000 – July 2002 Loan Originations | | | | | | |
|--|--|---|---|--|--|---|
| | % of Number Originated in the Moderate-income BNA | % of Dollar Amount Originated in the Moderate-income BNA | % of Number Originated in the Middle-Income BNAs | % of Dollar Amount Originated in the Middle-Income BNAs | % of Number Originated in the Upper-Income BNAs | % of Dollar Amount Originated in the Upper-Income BNAs |
| Commercial Loans | 3% | 1% | 50% | 24% | 47% | 75% |
| Percentage of Businesses in the Assessment Area (census information) | 5% | | 54% | | 41% | |
| Refinanced Real Estate Mortgages | 0% | 0% | 40% | 39% | 60% | 61% |
| Percentage of Owner-Occupied Housing in the Assessment Area (census information) | 3% | | 51% | | 46% | |
| Total Loans | 1% | 0% | 43% | 33% | 56% | 67% |

As indicated by the above table, a smaller percentage of loans were made in the moderate-income BNAs than the percentage of owner-occupied housing units and businesses in the assessment area. This is reasonable based on two factors. First, two of the moderate-income BNAs are located near the university, which consists primarily of student housing. Second, the other moderate-income BNA is located at the former K.I. Sawyer Air Force Base, which was closed in 1995. The regional airport in Marquette relocated to this site in 1999, and only recently has the area experienced activity in both the residential and commercial sectors. Additionally, there are other financial institutions located in or near these moderate-income areas that are more readily accessible for customers. Based on these facts, the percentage of residential real estate and commercial loan customers in the moderate-income BNAs is considered reasonable.

Responses to Complaints

Neither the bank nor our agency has received any CRA-related complaints since the previous evaluation.

Fair Lending Review

An analysis of 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on analysis of this information (or absence of information), the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.