



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 01, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Commercial National Bank of L'Anse
Charter Number 15508**

**1 East Broad Street
L'Anse, MI 49946**

**Comptroller of the Currency
Iron Mountain Field Office
P.O. Box 666
Iron Mountain, MI 49801**

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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

- The bank has a reasonable distribution of loans to individuals of different income levels.
- The loan-to-deposit ratio is reasonable.
- A majority of loans are originated inside the bank's assessment area.
- The geographic distribution of loans reflects an adequate dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

Commercial National Bank of L'Anse (CNB-L'Anse) is a \$63 million community bank with \$7 million in tier one capital. The bank's main office and one branch office are located in L'Anse, MI in a middle-income census tract (CT). The branch location was purchased from another financial institution and was opened in the spring of 2003. The bank is wholly owned by the Keweenaw Financial Corporation located in Hancock, MI. This \$362 million bank holding company owns two banks in the northwestern Upper Peninsula (UP) of MI, with the other financial institution being Superior National Bank and Trust Company in Hancock, MI. All financial information is as of March 31, 2005.

The bank offers traditional community bank products and services and is primarily a residential real estate and consumer lender. As of March 31, 2005, the net loan portfolio represented 57% of total assets. The loan portfolio in dollar amount is broken down as follows: 40% residential real estate, 44% commercial, and 16% consumer loans.

Several loan products are offered that benefit low- or moderate-income borrowers or small businesses. Loans guaranteed through rural housing development and the Michigan State Housing Development Authority (MSHDA) home improvement loans are available to qualifying residential real estate borrowers. Loans guaranteed through the small business association (SBA) are available to those businesses that qualify.

There are no financial, legal or other impediments which would hinder the bank's ability to help meet the credit needs of its assessment area. The previous CRA evaluation dated October 12, 1999, resulted in a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) includes three CTs located in the northwestern portion of the UP of Michigan. This area includes Baraga County and the southern portion of Houghton County. The AA is comprised of three middle-income (100%) CTs. The AA is considered legal and appropriate. It consists of only whole CTs and does not arbitrarily exclude any low- or moderate-income geographies.

According to 2000 census data, the total population of the bank's AA is 11,879, which is comprised of 3,115 families and 4,684 households. The number of families in each income level is as follows: 622 low-income families (20%), 620 moderate-income families (20%), 832 middle-income families (27%), and 1,041 upper-income families (33%). Of the low-income families, 223 (36%) are below the poverty level. The breakdown of households by income level are as follows: 1,230 low-income households (26%), 814 moderate-income households (17%), 961 middle-income households (21%), and 1,679 upper-income households (36%). Of the low-income households, 478 (39%) are below the poverty level. The HUD updated median family income for nonmetropolitan areas in Michigan was \$49,600 in 2004 and \$48,300 in 2003. These figures are used in the borrower income distribution test. The 2000 census median family income for nonmetropolitan areas in Michigan is \$41,764. This figure is used in the geographic distribution test to determine income levels of the CTs. The median housing value within the AA is \$65,644, with 56% of the total housing units being owner-occupied.

The local economy is characterized as stable. Manufacturing, logging, and tourism are the primary economic activities in the area. Major employers in the area include: Michigan Department of Corrections, Keweenaw Bay Indian Community, Baraga County Memorial Hospital, and Terex. According to April 2005 Michigan Department of Workforce Development figures, the unemployment rates for Baraga and Houghton Counties were 12.5% and 7.1%, respectively. The unemployment rates for the entire state and the UP are 6.6% and 7.6%, respectively, for the same time period.

Competition among financial institutions in CNB L'Anse's trade area is considered healthy. Competitors include: a branch of one large state bank, a branch of the bank's sister bank, and one credit union. In total deposits, CNB-L'Anse, with a market share of 49%, ranks first out of all FDIC-insured institutions with at least one branch located in the bank's AA. This is using FDIC deposit market share data as of June 30, 2004. The balance of the market share is divided between two institutions with market shares of 41% and 10%.

In conducting this assessment of the bank's performance, we contacted a representative from a local real estate agency. The contact stated that local financial institutions are meeting the credit needs of the community and had only favorable comments concerning the bank's performance.

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 62%, which ranks fifth in a peer group of six similarly situated banks. The peer group consists of financial institutions chartered within 60 miles of the bank. CNB-L'Anse has the third largest level of average assets of these banks at \$64 million. The other banks' average assets ranged from \$41 million to \$73 million. The average loan-to-deposit ratios for the similarly situated banks ranged from 49% to 96%, over the same time period.

CNB-L'Anse also originates a large number of residential real estate loans that are immediately sold on the secondary market. These loans would not be used in the loan-to-deposit calculation. In 2003, 2004 and year-to-date 2005, the bank originated and sold \$2.97 million, \$2.58 million

and \$57 thousand, respectively.

Lending in Assessment Area

The bank originates a majority of its loans inside the 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 1, 2003 and May 2, 2005. A comparison of zip code and CT boundaries indicated they are similar; therefore, the location of borrowers with loans in the selected time period was determined using their zip codes as a proxy for the CT address. A 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 2003 – May 2005 Loan Originations		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial Loans	80%	78%
Residential Real Estate Mortgages	90%	88%
Consumer Loans	90%	87%
Total	89%	84%

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. The bank's primary loan products were used in our sample and are depicted in the following tables. The following table is based on an analysis of 30 consumer loans randomly selected from all consumer loans originated between January 1, 2003 and May 1, 2005 to borrowers located in the bank's AA and containing income information.

Lending Distribution Based on Income Level of Consumer Loan Borrowers January 2003 – May 2005 Loan Originations			
Borrower Income Level	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar Value of Loans	Percentage of Households in each Income Category (Census information)
Low	36%	19%	26%
Moderate	30%	24%	17%
Middle	17%	27%	21%
Upper	17%	30%	36%
Totals	100%	100%	100%

As depicted in the above table, both the number of consumer loans made to low-income borrowers and the number and dollar amount of loans made to moderate-income borrowers is well above the income characteristics of the AA. The dollar amount of consumer loans made to low-income borrowers is below the household income characteristics of the area; however, is indicative of the smaller loans that are typically made to customers in this income range.

The following table is based on an analysis of 30 residential real estate first lien mortgage loans containing income information for the borrower. These customers are located within the bank's assessment area and were randomly selected from all residential real estate first lien mortgages originated between January 1, 2003 and May 1, 2005.

Lending Distribution Based on Income Level of Residential First Lien Real Estate Borrowers January 2003 – May 2005 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	40%	20%	20%
Moderate	10%	13%	20%
Middle	27%	35%	27%
Upper	23%	32%	33%
Totals	100%	100%	100%

As indicated by the table above, 50% of the number and 33% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 40% of the assessment area's demographics. This represents an adequate distribution of lending to borrowers of different income levels.

Geographic Distribution of Loans

As discussed in the description of assessment area section, the bank's assessment area consists of only middle-income CTs. Because there are no low- or moderate-income CTs in the assessment area, a geographic distribution analysis would not provide meaningful results. We performed a limited analysis that revealed a reasonable distribution of loans throughout the assessment area. According to 2000 census data and bank management, low- and moderate-income families are not concentrated in any one particular area. These families are dispersed throughout the assessment area, in neighborhoods with middle- and upper-income families.

Responses to Complaints

No complaints have been received by the bank or OCC relating to the bank's CRA performance since the previous evaluation.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.