

PUBLIC DISCLOSURE

September 20, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MFC First National Bank
500 South Stephenson Avenue
Iron Mountain, Michigan 49801**

Charter # 11954

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

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the MFC First National Bank, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of September 20, 1999. 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**.

- The bank has a reasonable distribution of lending to businesses of different sizes given the demographics of the assessment area.
- A substantial majority of its loans are originated inside the assessment area.
- There is a reasonable distribution of loans to individuals of different income levels, including low- and moderate-income levels.
- The loan-to-deposit ratio is strong.

DESCRIPTION OF INSTITUTION:

MFC First National Bank is a \$58.8 million institution with the main office located in downtown Iron Mountain, a middle-income Block Numbering Area (BNA). The bank has branches in Powers, Hermansville, and Quinnesec, Michigan, all middle-income BNAs. There is also an ATM at the main office. No offices have opened or closed since our last CRA examination on June 17, 1996. The bank is owned by Michigan Financial Corporation (MFC) located in Marquette, Michigan. MFC is a \$843 million bank holding company which owns seven banks located throughout the western half of the Upper Peninsula of Michigan and an insurance subsidiary.

The bank offers traditional community bank services with a loan portfolio representing 93% of total assets as of June 30, 1999. MFC First National Bank is primarily a commercial and residential real estate lender. The loan portfolio consists of 48% commercial loans, 40% residential real estate mortgages, and 12% consumer loans. There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

The previous CRA examination dated June 17, 1996, resulted in an outstanding rating.

DESCRIPTION OF THE ASSESSMENT AREA:

The assessment area (AA) consists predominantly of Dickinson County, Michigan. This county is comprised of one upper-income and six middle-income BNAs. The area also includes one moderate-income and two middle-income BNAs in Menominee County, Michigan. In addition, the AA includes five BNAs in northeastern Wisconsin: two middle-income BNAs in Florence County, as well as one middle-income and two moderate-income BNAs in Marinette County. 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 47,772, based on 1990 census data. The median family income from the 1990 census is \$27,894 for Michigan and \$30,290 for Wisconsin. The updated Housing and Urban Development (HUD) 1999 median family income for non-metropolitan areas is \$39,400 for Michigan and \$44,400 for Wisconsin. A breakdown of family income levels in the assessment area shows 20% as low-income (2,624 families), 19% as moderate-income (2,613 families), 23% as middle-income (3,054 families) and 38% as upper-income (5,077 families). Of the 2,624 low-income families in the assessment area, 1,270 are below the poverty level. The median housing value within the assessment area is \$41,144 in Michigan and \$39,095 in Wisconsin. 55% of the housing is owner occupied.

The local economy is stable. Unemployment in the area is higher than the Michigan and Wisconsin state averages. As of July 1999, the unemployment rate in Dickinson County was 4.7%, which is higher than the state of Michigan's rate of 3.4% and Wisconsin's rate of 3.0%. The primary industries in the area include the manufacture of wood and paper products, furniture, and construction materials. Major employers include Champion International Corp., Grede Foundries, Inc., Khoury, Inc., Cable Constructors, Inc. and the Dickinson County and Veterans Hospitals.

Competition among financial institutions in the assessment area is strong. A number of commercial and savings banks, credit unions and a mortgage company also compete for business.

In conducting this assessment of the bank's performance, we contacted an executive director of a local economic development organization. He believes that the credit needs of the community are being met by the financial institutions. Because competition among lenders in the area is strong, he does not consider access to credit to be an issue. In addition, he pointed out that all of the local bank presidents are active in the community, with many of them serving on boards of directors of community organizations. He believes that all the banks in the area are always interested in opportunities for community development.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio Analysis:

The bank's loan-to-deposit ratio is strong. MFC First National Bank's average quarterly loan-to-deposit ratio from September 1996 through June 1999 is 93%. This compares to an average quarterly loan-to-deposit ratio of 79% for four similarly situated banks in Iron Mountain and Norway, Michigan and Niagara and Florence, Wisconsin. Three of these banks have total assets under \$100 million and the fourth has total assets of \$159 million. These banks had average loan-to-deposit ratios ranging from 72% to 84% over the same period.

Lending in the Assessment Area:

MFC First National Bank originates a substantial majority of its loans inside its assessment area. This conclusion is based on the original dollar amount and number of a sample of 23 commercial loans and 62 residential real estate mortgage loans originated or refinanced by the bank since August 1998. Customer location was determined using street address, city, and zip codes, which were plotted on plat maps, and assessment area BNA maps. The following table illustrates the level of lending inside the bank's assessment area:

Penetration of Lending Inside the Bank's Assessment Area		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial Loans	91%	69%
Residential Real Estate Mortgages	92%	93%
Total	92%	82%

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

The bank does a satisfactory job of lending to borrowers of different income levels and to businesses of different sizes. The bank's primary loan products of commercial loans and residential real estate mortgages were used in our sample. Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to well over one million dollars. A sample of 31 commercial customer files indicates the following breakdown of annual revenues:

Lending Distribution Based on Revenue Size of Businesses		
Revenue Size of Businesses Sampled \$(000's)	Bank Lending Distribution by Number of Loans	Percentage of Businesses in each Revenue Category (census information)
*Revenue not reported	10%	90%
< \$100	32%	
\$100 - \$500	29%	
\$500 - \$1,000	16%	
> \$1,000	13%	10%
Totals	100%	100%

*These businesses did not have a financial statement in the loan file. However, it can be reasonably inferred from the business type that gross revenues would be less than \$1 million.

The following table is based on an analysis of 57 residential real estate loan files containing income information for the borrower. The files were from those reviewed during our examination of the bank's compliance with consumer laws and regulations. Customers were randomly selected from all residential real estate mortgages originated since August 1998.

Lending Distribution Based on Income Level of Residential Real Estate Borrowers August 1998 - August 1999 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	13%	7%	20%
Moderate	16%	11%	19%
Middle	33%	36%	23%
Upper	33%	42%	38%
Income not reported	5%	4%	N/A
Totals	100%	100%	100%

As indicated by the above table, 29% of the number and 18% of the dollar value of loans were made to low- and moderate-income borrowers. This represents a reasonable 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 dollar loans that are typically made in those income ranges.

Geographic Distribution of Loans:

An analysis of the distribution of credit by income and business revenue levels included a review of 31 commercial loans and 57 residential mortgage loans originated since August 1998. Our sample did not contain any loans made in any of the three moderate-income BNAs. This is considered reasonable based on the location of each BNA and the accessibility to other financial institutions for the credit needs of these BNAs. The moderate-income BNA located in Menominee County, Michigan lies on the outskirts of the AA and is close to an affiliate's branch and another bank branch. The two moderate-income BNAs in Marinette County, Wisconsin also lie on the outskirts of the AA and three banks and a credit union adequately serve the credit needs of the residents.

Response to CRA Related Complaints:

The bank has not received any CRA related complaints since the previous evaluation.

Compliance with Anti-discrimination Laws:

MFC First National Bank complies with applicable anti-discrimination laws and regulations. The OCC conducted a fair lending examination concurrently with its CRA examination. We reviewed 47 automobile loans made to single males and single females to compare loan terms. No evidence of disparate treatment was identified.