



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 15, 2003

COMMUNITY REINVESTMENT ACT (CRA) PERFORMANCE EVALUATION

**The First National Bank of St. Ignace
Charter Number: 3886**

**132 North State Street
St. Ignace, MI 49781**

**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.

TABLE OF CONTENTS

<i>INSTITUTION'S CRA RATING</i>	<i>1</i>
<i>DESCRIPTION OF INSTITUTION</i>	<i>1</i>
<i>DESCRIPTION OF ASSESSMENT AREA.....</i>	<i>1</i>
<i>CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....</i>	<i>2</i>

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

- A substantial majority of loans are originated inside the bank's assessment area.
- The geographic distribution of loans reflects a good dispersion throughout the assessment area.
- The loan-to-deposit ratio is reasonable.
- The bank has an adequate distribution of loans to individuals of different income levels, including low- and moderate-income levels, and businesses of different sizes.

DESCRIPTION OF INSTITUTION

The First National Bank of St. Ignace (FNB-St. Ignace) is a \$195 million community bank with \$19 million in tier one capital. The main office is located in St. Ignace, MI in a middle-income census tract (CT). The bank operates four full-service branches, located in Newberry, MI (middle-income CT), Naubinway, MI (moderate-income CT), Cedarville, MI (middle-income CT), and Mackinac Island, MI (middle-income CT). The bank also operates two drive-up branch offices located in St. Ignace, MI in middle-income CTs, one on North State Street and one on West US 2. 24-hour ATMs are located at all FNB-St. Ignace branches except for the North State Street drive-up branch. ATMs are also located at the following locations: Cedarville Foods in Cedarville, MI, Glen's Market in St. Ignace, MI, Shell Station in St. Ignace, MI, and the taxi stand on Mackinac Island, MI. All of these ATMs are located in middle-income CTs and are available during normal business hours. The West US 2 branch was opened in May 2001. All financial information is as of June 30, 2003.

The bank offers traditional community bank products and services and is primarily a commercial and residential real estate lender. As of June 30, 2003, the net loan portfolio represented 53% of total assets. The loan portfolio is broken down as follows: 59% commercial, 32% residential real estate, and 9% consumer loans.

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 5, 1998, resulted in a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) includes 12 CTs located in the upper and lower peninsula of Michigan. This area includes all of Mackinac and Luce Counties and the southeastern portion of Chippewa County in the Upper Peninsula, the north and northeastern portion of Emmet County and the northwestern section of Cheboygan County in the Lower Peninsula. The AA is comprised of three moderate- (25%) and nine middle-income (75%) 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 1990 census data, the total population of the bank's AA is 28,298, which is comprised of 7,992 families. Income levels for these families are as follows: 1,916 low-income families (24%), 1,796 moderate-income families (22%), 1,996 middle-income families (25%), and 2,314 upper-income families (29%). Of the low-income families, 943 (49%) are below the poverty level. The HUD updated median family income for nonmetropolitan areas in Michigan was \$44,800 in 2002 and \$42,700 in 2001. These figures were used in the borrower income distribution test. The 1990 census median family income for nonmetropolitan areas in Michigan is \$27,893. This figure was used in the geographic distribution test. The median housing value within the AA is \$41,467, with 39% of the total housing units being owner-occupied.

The current local economy is characterized as stable. The primary economic activity in the area is tourism. Various motels, restaurants, and gift shops are located in the area. Major nonseasonal employers include: the State of Michigan, the Mackinac Bridge Authority, and the Sault Tribe (Kewadin Casino). Major seasonal employers include the Grand Hotel on Mackinac Island and the ferry services. The average unemployment rate in July 2003 for the Upper Peninsula of Michigan was 8.1%. The average unemployment rates for Mackinac, Luce, Chippewa, Emmet and Cheboygan Counties for the same time period were 10.2%, 8.1%, 8.8%, 8.5%, and 12.5%, respectively. These rates equate to an average unemployment rate for the five county area of 9.6%. These figures are not seasonally adjusted.

Competition among financial institutions in FNB-St. Ignace's AA is considered strong. Competitors include: branches of two large multi-state banks, branches of one large Michigan state bank, the branches of three Michigan community banks, and several credit unions. In total deposits, FNB-St. Ignace, with a market share of 27%, ranks first out of all FDIC-insured institutions with at least one branch located in the bank's AA. This is using FDIC market share data as of June 30, 2002. The balance of the market share is divided among six institutions with market shares ranging from 25% down to 4%.

In conducting this assessment of the bank's performance, we contacted a member of a local community action 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 satisfactory given its size, financial condition, and the credit needs of the community. The average quarterly loan-to-deposit ratio for the bank since the last examination is 64%, which ranks sixth in a peer group of six similarly situated banks. The peer group consists of banks with assets less than \$250 million that are chartered within 50 miles of FNB-St. Ignace. Additionally, the bank originates residential real estate loans that are immediately sold on the secondary market. These loans are not used in the loan-to-deposit calculation. In 2002 and 2001, the bank originated and sold \$10 million and \$5 million, respectively. FNB-St. Ignace has the second largest level of average assets of these banks at \$190 million. The other banks' average assets ranged from \$62 million to \$250 million. The average loan-to-deposit ratios for the similarly situated banks ranged from 65% to 101%, over

the same time period.

Lending in Assessment Area

The bank originates a substantial 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, 2001 and December 31, 2002. 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 code 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 2001 – December 2002 Loan Originations		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial Loans	90%	80%
Residential Real Estate Mortgages	87%	85%
Consumer Loans	86%	83%
Total	87%	82%

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 2001 – December 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	5	17%	90%
\$100 - \$500	9	30%	
\$500 - \$1,000	4	13%	5%
> \$1,000	6	20%	5%
Revenue not Reported	6	20%	
Totals:	30	100%	100%

The table above shows 80% of the businesses sampled have revenues of \$1 million or less. Loans for businesses with unreported revenues include loans where no income information was

evident in the loan file. These businesses are included in the \$1 million or less revenue category because it can be reasonably inferred from the type of business that gross revenues are \$1 million or less.

The following table is based on an analysis of 30 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 residential first lien real estate mortgages originated between January 1, 2001 and December 31, 2002.

Lending Distribution Based on Income Level of Residential Real Estate Borrowers January 2001 – December 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%	24%
Moderate	33%	33%	22%
Middle	27%	27%	25%
Upper	30%	34%	29%
Totals	100%	100%	100%

As indicated by the table above, 43% of the number and 39% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 46% of the assessment area's population. This represents an adequate distribution of lending to borrowers of different income levels. The lower percentage in dollars loaned to low-income borrowers is indicative of the smaller loans that are typically made to customers in this income range. In addition, close to one-half (49%) 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 residential first lien real estate mortgage loans sample above indicates FNB-St. Ignace has a good dispersion of loans throughout its assessment area, with lending evident in all CTs. This is illustrated in the following table:

Geographic Distribution Based on Number and Dollar Amount of Loans Made in Assessment Area January 2001 – December 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
Commercial Loans	20%	19%	80%	81%
Percentage of Businesses in the Assessment Area (census information)	13%		87%	
Residential Real Estate Mortgages	37%	34%	63%	66%
Percentage of Owner-Occupied Housing in the Assessment Area (census information)	22%		78%	
Total Loans	28%	23%	72%	77%

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 Review

An analysis of 2002 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 conjunction with the previous CRA evaluation in 1998.