



Comptroller of the Currency
Administrator of National Banks

Public Disclosure

February 20, 1997

Community Reinvestment Act Performance Evaluation

**MFC First National Bank
Charter #390
P.O. Box 10
Marquette, Michigan 49855**

Office of the Comptroller of the Currency
P.O. Box 666
Iron Mountain, Michigan 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 CRA performance of **MFC First National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 20, 1997**. The agency evaluates performance in assessment areas, 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 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

MFC is the leader at originating residential real estate mortgage loans in its assessment area. The bank also has a good record of originating commercial loans to businesses of all sizes. An effective delivery system ensures retail banking services are accessible to everyone in the area.

The following table indicates the performance level of **MFC First National Bank** with respect to the lending, investment, and service tests.

Performance Levels	MFC First National Bank Performance Tests		
	Lending Test	Investment Test	Service Test
Outstanding			
High satisfactory	X		X
Low satisfactory		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.

SUMMARY OF MFC'S OPERATIONS IN MARQUETTE AND ALGER COUNTY

MFC First National Bank is a \$306 million bank with the main office located in downtown Marquette, a middle-income census tract. The bank has fourteen branches, one located in a moderate-income area. Twelve of the branches are in Marquette County and two are in Alger County. One of the branches in Alger County just opened in November 1996. There also are seventeen ATMs located throughout the area. The bank is owned by Michigan Financial Corporation (MFC) located in Marquette, Michigan. MFC is an \$817 million bank holding company which owns seven banks located throughout the western half of the Upper Peninsula (U.P.) of Michigan and an insurance subsidiary.

The bank offers traditional community bank services with the loan portfolio representing 79% of total assets. The loan portfolio is 40% residential real estate, 37% commercial and 23% consumer loans. There are no financial, legal, or other impediments which would hinder the bank's ability to help meet credit needs of its assessment area.

DESCRIPTION OF MARQUETTE AND ALGER COUNTIES

The assessment area includes all of Marquette and Alger counties. Marquette County contains ten upper-, twelve middle- and three moderate income census tracts. Income levels are based on 1990 census data. Two moderate-income tracts include portions of Northern Michigan University's campus. Only 633 families resided in this area at the last census, and there are few businesses. The census tract containing most of these families has an average family income level that is 79.5% of the statewide average. Middle-income tracts are defined as having income levels between 80% and less than 120% of the median state income. The other moderate-income area is located at the former K.I. Sawyer Air Force base. The base closed September 1995 so the population of this census tract has declined significantly since the last census. The Marquette Branch prison area is in a census tract classified NA (not applicable) so is not considered in this analysis. Alger County has three Block Numbering Areas (BNAs), all of which are middle-income. MFC's assessment area meets the regulatory criteria and does not arbitrarily exclude low- or moderate-income geographies. The population according to the 1990 census is 79,859. Income levels of these 20,592 families are as follows: low- income - 17%; moderate-income - 19%; middle-income - 22%; and upper-income - 42%. The median family income in a non-metropolitan area in Michigan was \$33,800 in 1996 according to HUD estimates.

The local economy is good with improving trends in both employment and income levels. The 1996 unemployment rate was 6% for Marquette county and 7.2% for Alger County. The primary industry is tourism with medical services secondary. Major employers include Marquette General Hospital, Cleveland Cliffs Iron Co., and Northern Michigan University.

Competition is strong in the local market. Two other national banks have offices in the assessment area, including branches of the multi-billion dollar First of America Corporation. D&N Bank, a thrift with total assets over \$1 billion, has several offices in the area. There are also three state banks, another savings and loan, and several credit unions. Brokerage companies also vie for deposit customers.

Members of the local business community, contacted in conjunction with this examination and examinations of other local financial institutions, had only favorable comments concerning this bank's performance.

SCOPE OF REVIEW

Conclusions reached for the lending test were based on commercial loan originations in 1996 and residential real estate mortgage loans during the fourth quarter of 1996. As previously discussed,

these products comprise a large majority of the bank's loan portfolio. Conclusions reached for the investments and services tests were based on all activities since our December 31, 1993 examination.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

Lending Activity:

MFC is the leader in originating residential mortgage loans in Marquette County. During the twenty week period ending January 6, 1997 the bank originated 662 mortgages, representing 47% of the number and 53% of the dollar amount of all residential real estate mortgages recorded in the county. The volume of loan originations in Alger County is much less as there was only one branch until November 1996. However, the bank was still able to originate 21% of the dollar amount and 17% of the number of all residential real estate mortgages recorded in the county during the eighteen week period ending December 18, 1996.

A large majority of the bank's loans are located within the assessment area (A.A.). The following table reflects all commercial loan originations in 1996 and all residential real estate mortgage loans originated in the fourth quarter of 1996:

Location	Commercial by \$ Amount	Commercial by Number	Residential Real Estate by \$ Amount	Residential Real Estate by Number
Inside A.A.	92%	98%	82%	81%
Outside A.A.	8%	2%	18%	19%

Due to business considerations, the underwriting of all affiliates' secondary market loans is done by this bank. A large majority of the residential real estate mortgage originations located outside the assessment area are secondary market loans of other MFC banks.

The bank's loan-to-deposit ratio at December 31, 1996 was 92%.

Geographic Distribution of Loans:

The bank has done a good job of lending to borrowers located throughout the assessment area. Ninety-eight percent of the number of commercial loan originations in 1996 were for less than \$1 million. The locations of these loans are as follows:

BNA or Census Tract Income Level	Percent by Dollar Amount	Percent by Number of Loans
Moderate	4%	6%

Middle	53%	46%
Upper	43%	48%

The location of residential real estate mortgages originated in the fourth quarter of 1996 to customers in the assessment area are as follows:

BNA Income Level	Percent by Dollar Amount	Percent by Number of Loans
Moderate	4%	2%
Middle or Upper	96%	98%

The bank is making loans in the moderate income areas. However, as previously discussed in the "Description" paragraph, there are not many families or businesses in these areas and the tract with the most families is very close to being a middle-income tract. Per the 1990 census, 10% of all households were in moderate-income areas. That number has subsequently declined with the closing of K.I. Sawyer AFB.

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

The bank does a good job of lending to businesses of different sizes. Annual business revenues of commercial customers range from a few thousand to several million dollars per our review of several files, with the majority of loans made to small businesses. As previously mentioned, 98% of all commercial originations in 1996 were for less than \$1 million.

The annual income of a random sample of 69 customers, with a purchase or refinanced home mortgage originated in the fourth quarter of 1996, was as follows:

Income Level	Percent of Sample (Based on Number of Loans)	Percent of Families in A.A.
Low	6%	17%
Moderate	13%	19%
Middle	33%	22%
Upper	48%	42%

Management believes more loans are made to middle- or upper- income individuals in the fourth quarter than at other times of the year. Construction of new homes doesn't usually begin until the second quarter due to weather condition. The larger home construction loans tend to term out during the fourth quarter as they take longer to build.

Community Development Lending:

The bank has a \$3 million commitment to fund a line of credit for the start-up of a sawmill at the former K.I. Sawyer AFB, a moderate income census tract. This business is expected to open during 1997. This business should help revitalize the area as approximately 100 new jobs will be created.

Flexible Lending Practices:

MFC has engaged in flexible lending practices to help meet credit needs of low- or moderate-income individuals or geographies. The bank used all of the following programs during 1996 to assist individuals in getting a home loan:

- There are several Michigan State Housing Development Authority (MSHDA) programs which offer fixed rate, long term financing for low- to moderate-income borrowers. The MSHDA 97 program is available for borrowers who do not have sufficient assets or equity in a current home to afford a large down payment. Qualifying ratios are lower, the down payment requirement is lower, the borrower needs less in the way of reserves, and usually the interest rate is more attractive. The Mortgage Certificate Credit program available through MSHDA provides a dollar for dollar federal tax credit for qualified borrowers for up to 20% of the mortgage interest they will pay on a new home purchased. This product can be combined with any other lending product, except another MSHDA product, to assist in qualifying a borrower. If a low- to moderate-income borrower qualifies for both VA guaranteed financing and MSHDA, MFC offers a 30-year term mortgage at the MSHDA fixed interest rate. A total of \$1 million in MSHDA loans originated in 1996 (21 loans).
- Veteran's Association (V.A.) Guaranteed Home Loans are available for eligible veterans, often with no down payment requirement. A total of \$876,000 in VA loans originated in 1996 (13 loans).
- The Fannie 97 program through the Federal National Mortgage Association (FannieMae) is for first time home buyers. Qualifying ratios are flexible and gifted funds can be used for closing costs or required reserves. A total of \$327,000 in Fannie 97 loans originated in 1996 (6 loans).
- Long term, fixed rate financing guaranteed by the USDA/Rural and Economic Community Development (RECD) is available to qualified borrowers that do not meet requirements for any other product. This program is for low-income, first time home buyers or low-income borrowers currently living in substandard housing. There is no down payment requirement. A total of \$219,000 in RECD loans originated in 1996 (4 loans).
- Fixed rate, long term loans are available on the secondary market through the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association. Terms are available for up to 30 years, with as little as a 5% down payment. A total of 495 of these loans originated in 1996 which were located in the assessment area.

The following programs were all used by the bank in 1996 to assist small businesses:

- The Michigan Strategic Fund's Capital Access program provides a partial guarantee for riskier borrowers (currently 47 customers in this program).
- The Small Business Administration loan program is available for small business owners who may not otherwise qualify for bank credit (currently 4 customers in this program).
- The Economic Development Corporation (EDC) provides a guaranty for qualified borrowers which increases the equity position in the business for underwriting purposes. There could also be a loan structure benefit to the customer, either through a longer term or a lower rate

than what the bank could offer out-right. Primary beneficiaries of this type of loan are start-ups or businesses experiencing significant growth (currently 1 customer in this program).

- Several local banks, including MFC, offered a low-interest loan program with the Downtown Marquette Association and the Downtown Development Authority. This program was for renovation of existing businesses and for new development and expired in 1996 (currently 4 customers in this program).

INVESTMENT TEST

In 1994 MFC received a \$7,000 direct subsidy from the Federal Home Loan Bank of Indianapolis of Community Investment and Affordable Housing subsidized funds program. The bank granted these funds to the local Habitat for Humanity for use in constructing a single family home in the Marquette area.

There have not been any municipal investments available to purchase in the assessment area which meet the definition of “qualified investment” for CRA assessment purposes.

SERVICE TEST

Retail Banking Services:

MFC has ensured that banking services are available to all residents of the assessment area. Fourteen branches located throughout the assessment area provide convenient access to customers. All branches offer full banking services except commercial loans are only granted at the Main and Ishpeming offices. The K.I. Sawyer branch is located in a moderate-income BNA. The bank kept this branch open after the Air Force base closed, even though most of the local community moved away. An ATM at this branch provides customers with 24 hour access to their deposit accounts. Also, personal bankers are available for night appointments during the summer.

There was no apparent adverse impact on the community due to the Airport branch closing in 1996. The bank has two other branches located within a few miles of this office. A new branch opened November 1996 in Munising to better serve customers in Alger County.

Community Development:

The bank provides a high level of community development services throughout the assessment area.

MFC sponsored a “Home Buyers Fair” in Marquette during 1995. The purpose was to provide information about home buying to the general public. Participants included realtors, lawyers, appraisers, members of the bank’s lending staff, builders, and a representative from Freddie Mac.

The commercial loan department maintains information on products and services available from the various economic development organizations in the area. The bank will refer customers to the Marquette County Economic Development Corporation (EDC) and the North Coast Business and Industrial Development Corporation (BIDCO). BIDCO provides flexible financing and management assistance for new, emerging, and expanding businesses in the area.

Reference material is available for customers on how to prepare a business plan. Northern Initiatives of Marquette, a nonprofit community development corporation, has prepared a book titled “Business Planning in Four Steps and a Leap”. The bank sells this book to the public at less than cost. This charge is subsequently deducted from closing costs if a loan originates.

Bank employees provide technical assistance on financial matters to several local organizations. Examples include serving as:

- a board member of the Marquette County EDC, providing assistance with credit decisions.
- a board member of the local Habitat for Humanity.
- a liaison on the K.I. Sawyer Conversion Authority.
- a member of the U.P. Housing Commission.

The bank has several products available to help increase access to financial services for low- or mod-income individuals:

- Basic Checking- no minimum balance, 15 checks a month. \$3.00/month fee which is waived to customers under age 23 if parents have a "Right Account".
- Right Account - a package of products including: interest on checking, no fee MasterCard/Visa, 1/4% discount on consumer loans with automatic payment, .25% bonus on a "Sure Saver" account. The \$9.00/month fee is waived to customers with a mortgage balance of at least \$2,500.
- Sure Saver Account - a forced savings plan that allows a minimum of \$25/ month. Yields range from savings to CD rates. A bonus rate is paid to children of "Right Account" holders.
- Instant Cash and Check - a point-of-sale card which has no transaction charge and pays an incentive of \$.10 per purchase transaction.
- 55-Plus Program - a special package of free or discounted financial services for customers who are 55 years of age or older. Services include financial planning, investment consultation, and various educational seminars.

Services provided which would benefit low- or moderate-income customers include:

- The automated voice response system "MFC On-Call" allows customers a way to get information on their accounts 24 hours a day. The phone call is toll free.
- A banking education program "How to do your Banking" is offered in seven school districts in the area. This class taught students various financial skills including how to prepare a budget, keep records, reconcile a checkbook, and use credit wisely.
- Free check cashing for customers
- Free notary service for customers.
- Acceptance of all utility bill payments at no charge.

OTHER

No violations were found during our review of the bank's compliance with antidiscrimination laws and regulations.