



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 18, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Norway
Charter Number 6863**

**501 West US 2
Norway, MI 49870**

**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.

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

- The bank has a good distribution of loans to individuals of different income levels, including low- and moderate-income levels, and businesses of different sizes.
- 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.
- The loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank of Norway (FNB-Norway) is a \$66 million community bank with \$8 million in tier-one capital. The bank is located in Norway, MI, a middle-income block numbering area (BNA). The bank is wholly owned by Northern Interstate Financial, Inc., a one-bank holding company with \$67 million in assets located in Norway, MI. The bank operates two full-service branches, which are located in the following areas: the Ebeling's IGA supermarket in Norway, MI (middle-income BNA) and north Iron Mountain (middle-income BNA). The bank also operates five non-depository ATMs at the following locations: the main office, the Iron Mountain branch, the Ebeling's IGA, the Amoco gas station in Norway, and the Amoco gas station in Quinnesec, MI. All ATMs are accessible during normal business hours except for the main office and Iron Mountain branch machines, which are accessible 24 hours. No branches have been closed since the previous performance evaluation. The Iron Mountain branch was opened in October 2001. All financial information is as of December 31, 2002.

The bank offers traditional community bank services with a net loan portfolio representing 76% of total assets as of December 31, 2002. The bank is primarily a commercial and residential real estate lender with a loan portfolio that consists of (by dollar value) 49% residential real estate loans, 45% commercial loans, and 6% consumer loans.

There are no financial or legal impediments that would hinder the bank's ability to help meet the credit needs of its assessment area. The previous CRA evaluation dated July 31, 1997, resulted in a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes all of Dickinson County in Michigan, which is comprised of seven BNAs. The assessment area is comprised of six middle- (86%) and one upper-income (14%) BNAs. The assessment area is considered legal and appropriate. It consists of only whole BNAs and does not

arbitrarily exclude any low- or moderate-income geographies.

According to 1990 census data, the total population of the bank's assessment area is 26,831, which is comprised of 7,594 families. Income levels for these families are as follows: 1,186 low-income families (16%), 1,374 moderate-income families (18%), 1,692 middle-income families (22%), and 3,342 upper-income families (44%). Of the low-income families, 569 (48%) 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 assessment area is \$42,848, with 65% of the total housing units being owner-occupied.

The current local economy is characterized as stable. The local economy is primarily dependent on the timber industry, including, paper mills, wood fiber processing and independent logging operations. Tourism is secondary to the local economy. Major employers in the area include: International Paper, Grede Foundries and the Norway School District. No major employers have left or moved into the area. A Home Depot recently opened in Iron Mountain, which added several new jobs to the area. Two large employers in Iron Mountain, namely MJ Electric and Cable Constructors have reduced their workforce in the Iron Mountain area in the recent past. The average unemployment rate for 2002 for the Upper Peninsula of Michigan was 7.2%. The average unemployment rate for the bank's assessment area for the same time period was 6.0%. These figures are not seasonally adjusted.

Competition in the area is relatively strong. The bank's competitors include: branches of two large multi-state banks, branches of two large Michigan state banks, the main office and branches of one Michigan community bank, branches of two Michigan community banks, two credit unions and several mortgage companies. In total deposits, FNB-Norway, with a market share of 14.0%, ranks third out of all FDIC-insured institutions with at least one branch located in Dickinson County. This is using FDIC market share data as of June 30, 2002. The balance of the market share is divided among seven institutions with market shares ranging from 38.1% down to 2.1%.

In conducting this assessment of the bank's performance, we contacted a local city manager. 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 79%, which ranks fifth in the peer group of five similarly situated banks. The peer group consists of banks with assets less than \$250 million that are chartered within 50 miles of FNB-Norway. The bank's loan-

to-deposit ratio trend over the past five years shows FNB-Norway's ratio increasing at a steady pace. At December 31, 2002, FNB-Norway had the second highest loan-to-deposit ratio of the five similarly situated banks at 87%. Additionally, the bank originates residential real estate loans that are immediately sold to a correspondent bank. These loans would not be used in the loan-to-deposit calculation. In 2002 and 2001, the bank originated and sold \$1,556M and \$1,040M, respectively. FNB-Norway has the third largest level of average assets of these banks at \$62 million. The other banks' average assets ranged from \$42 million to \$195 million. The average loan-to-deposit ratios for the similarly situated banks ranged from 81% to 100%, over the same time period.

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, 2001 and December 31, 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 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	74%	82%
Consumer Loans	84%	80%
Residential Real Estate Mortgages	82%	78%
Total	81%	80%

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

The bank's lending practices represent a good 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	13	43%	84%
\$100 - \$500	9	30%	
\$500 - \$1,000	1	3%	7%
> \$1,000	2	7%	9%
Revenue not Reported	5	17%	-
Totals:	30	100%	100%

The table above shows 93% 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 30 residential first lien 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 First Lien 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	27%	20%	16%
Moderate	20%	21%	18%
Middle	30%	34%	22%
Upper	23%	25%	44%
Totals	100%	100%	100%

As indicated by the table above, 47% of the number and 41% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 34% of the assessment area's population. This represents a good 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- and upper-income BNAs. Due to there being no low- or moderate-income BNAs in the assessment area, a meaningful geographic distribution analysis could not be performed. A limited analysis was performed; however, which revealed a reasonable distribution of loans throughout the assessment area. According to 1990 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 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 1997.