

## **PUBLIC DISCLOSURE**

October 12, 1999

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Commercial National Bank of L'Anse  
1 East Broad Street  
L'Anse, Michigan 49946**

**Charter # 15508**

**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 Commercial National Bank of L'Anse, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of October 12, 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**.

- 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.
- The bank has a satisfactory record of lending to individuals of different income levels, including low- and moderate-income families.
- The loan-to-deposit ratio is reasonable considering the size of the community and the level of competition in the area.

### DESCRIPTION OF INSTITUTION:

The Commercial National Bank of L'Anse is a \$52 million institution located in downtown L'Anse. The bank does not have any branches. No offices have opened or closed since our last examination on September 6, 1996. The bank operates one automatic teller machine located at the Holiday Gas Station in L'Anse. The bank is owned by Keweenaw Financial Corporation (KFC) headquartered in Hancock, Michigan. As of March 31, 1999, KFC is a \$191 million bank holding company which owns two banks located in the Upper Peninsula of Michigan.

The bank offers traditional community bank services with a loan portfolio representing 53% of total assets as of June 30, 1999. Commercial National Bank is primarily a residential real estate and commercial lender. The bank's loan portfolio consists of 42% residential real estate mortgages, 41% commercial loans and 17% consumer loans.

There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

The previous CRA examination dated September 6, 1996 resulted in a satisfactory CRA rating.

### **DESCRIPTION OF THE ASSESSMENT AREA:**

The assessment area consists of all of Baraga County and the southeastern portion of Houghton County. This area includes one moderate-income and two middle-income Block Numbering Areas (BNAs.) Commercial National Bank's office is located in a middle-income BNA. 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 10,940, based on 1990 census data. The State of Michigan median family income from the 1990 census is \$27,894. The updated Housing and Urban Development (HUD) 1999 median family income for non-metropolitan areas is \$39,400. A breakdown of family income levels in the assessment area shows 24% as low-income (725 families), 22% as moderate-income (644 families), 24% as middle-income (703 families) and 30% as upper-income (870 families). A total of 356 families have incomes below the poverty level. This represents 12% of the total families in the assessment area. The median housing value within the assessment area is \$37,484, with 49.5% of the housing being owner-occupied.

The local economy is stable. Average year-to-date unemployment in Baraga County as of August 1999 is 7.55%. This is over double the state average of 3.58%. Unemployment in Houghton County is also above the state average at 5.26%. Tourism remains the cornerstone of the area's economy. Other activities include the lumber industry and the state prison. The area's largest employers are Celotex Corporation, the Keweenaw Bay Indian Community, Michigan Technological University, the Michigan Department of Corrections, Northern Hardwoods, Terex Corporation, and the Baraga County Memorial Hospital.

President Phillip J. Ott is optimistic about the area's economic future. He expects new jobs to accompany the expansion of the Terex Corporation plant and the Baraga County Maximum Security Prison. Mr. Ott has also noticed an increase in the number of people retiring to the area, specifically the Skanee area. This has helped the real estate market and the new housing market. Competition among financial institutions in the assessment area is strong. An affiliate national bank has a branch in the local market. There are also two credit unions and a branch of a savings and loan in the local market. Since our last examination, a state-chartered bank opened a branch in L'Anse.

In conducting this assessment of the bank's performance, we contacted a local real estate agent. She believes that the credit needs of the community are being met by the local financial institutions. Because competition among lenders in the area is strong, she does not consider access to credit to be an issue. However, she believes that low-income individuals in the area would be better served if lenders offered more assistance to low-income, first-time homebuyers who typically have trouble saving for the initial down payment.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **Loan-to-Deposit Ratio Analysis:**

The bank's loan-to-deposit ratio is reasonable. Commercial National Bank's average quarterly loan-to-deposit ratio from September 1996 through June 1999 is 58%. There are no other banks located in this bank's assessment area (only branches of banks). Banks from the bordering counties of Houghton County and Iron County were used for comparisons. The average quarterly loan-to-deposit ratio for five similarly situated banks in Houghton and Iron Counties was 71%. Four of these banks have total assets under \$100 million and the fifth has total assets of \$137 million. These banks had average loan-to-deposit ratios ranging from 45% to 83% over the same period.

### **Lending in the Assessment Area:**

Commercial 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 20 commercial loans and 40 residential real estate mortgages originated or refinanced by the bank since January 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:

<b>Penetration of Lending Inside the Bank's Assessment Area January 1998 - September 1999 Loan Originations</b>		
	<b>% of Total Number of Loans Inside the Assessment Area</b>	<b>% of Total Dollar Amount of Loans Inside the Assessment Area</b>
Commercial Loans	95%	98%
Residential Real Estate Mortgages	98%	98%
Total	97%	98%

### **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, commercial loans and residential real estate mortgages, were used in our sample. A sample of 20 commercial customer files indicates the following breakdown of annual revenues:

<b>Lending Distribution Based on Revenue Size of Businesses January 1998 – September 1999</b>			
<b>Revenue Size of Businesses Sampled (000's)</b>	<b>Bank Lending Distribution by Number of Loans</b>	<b>Percent</b>	<b>Percentage of Businesses in Each Revenue Category (census information)</b>
< \$100	10	50%	84%
\$100 - \$500	6	30%	
\$500 - \$1,000	3	15%	9%
> \$1,000	1	5%	7%
Totals:	20	100%	100%

The following table is based on an analysis of 60 residential real estate loan files containing income information for the borrower. Customers were randomly selected from all residential real estate mortgages originated since January 1998.

<b>Lending Distribution Based on Income Level of Residential Real Estate Borrowers January 1998 - September 1999 Loan Originations</b>			
<b>Borrower Income Level</b>	<b>Bank Lending Distribution by Number of Loans</b>	<b>Bank Lending Distribution by Dollar Value of Loans</b>	<b>Percentage of Families in each Income Category (census information)</b>
Low	12%	6%	24%
Moderate	18%	14%	22%
Middle	33%	30%	24%
Upper	37%	50%	30%
Totals	100%	100%	100%

As indicated by the above table, 30% of the number and 20% of the dollar value of loans were made to low and moderate-income borrowers, who make up 46% of the area's population. This represents a reasonable distribution of lending to borrowers of different income levels. This conclusion is based on two factors. First, the lower percentage of dollars loaned to low and moderate-income borrowers is indicative of the smaller loans that are typically made to customers in those income ranges. Second, almost 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. Low income families with incomes above the poverty level represent 14% of families. This figure resembles the results of our sample, which revealed that 12% of the bank's mortgage loans are made to low-income families.

**Geographic Distribution of Loans:**

In order to perform our analysis of the bank’s geographic distribution of credit we reviewed 20 commercial loans and 40 residential mortgage loans. All of these loans were made to customers located within the assessment area and were originated after January 1998. Our analysis shows a satisfactory distribution of customers throughout the assessment area (see table below).

<b>Geographic Distribution Based on Number and Dollar Amount of Loans Made in Assessment Area January 1998 - September 1999 Loan Originations</b>				
	<b>% of Number Originated in the Moderate-income BNA</b>	<b>% of Dollar Amount Originated in the Moderate-income BNA</b>	<b>% of Number Originated in the Middle Income BNAs</b>	<b>% of Dollar Amount Originated in the Middle-Income BNAs</b>
<b>Commercial Loans</b>	25%	14%	75%	86%
<b>Real Estate Mortgages</b>	35%	44%	65%	56%
<b>Total Loans</b>	32%	30%	68%	70%
<b>Percentage of Families in the Assessment Area (census information)</b>	39%		61%	

**Response to CRA Related Complaints:**

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

**Compliance with Anti-discrimination Laws:**

Commercial National Bank complies with applicable anti-discrimination laws and regulations. The OCC conducted a fair lending examination concurrently with its CRA examination. We reviewed all denied loan applications since January 1998. In addition, we compared five real estate mortgages made to non-married joint applicants to 20 similar loans made to married applicants. We identified no evidence of disparate treatment.