



PUBLIC DISCLOSURE

July 24, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Capitol National Bank
Charter: 17525**

**200 Washington Square North
Lansing, Michigan 48933**

Comptroller of the Currency
Central District Office
One Financial Place, Suite 2700
440 South LaSalle Street
Chicago, Illinois 60605

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 **Capitol National Bank, Lansing, Michigan** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency as of **July 24, 1997**. 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 has a “**Satisfactory Record of Meeting Community Credit Needs**”. This rating is based on its:

- ◆ strong lending performance to small businesses;
- ◆ participation and investment in community development activities;
- ◆ origination of loans within the assessment area; and
- ◆ excellent loan to deposit ratio.

DESCRIPTION OF INSTITUTION

Capitol National Bank (CNB) is a \$118 million independent community bank located in Lansing, Michigan. The bank's main office is in downtown Lansing and the bank has one branch in Okemos, Michigan. The bank has no automated teller machines (ATM), but maintains an ATM card base for its customers at no charge for use in others' ATM machines. CNB is affiliated with Capitol Bancorp, Limited a \$691 million, 14 bank holding company which operates in Michigan and Arizona.

CNB is a full service institution, offering a wide array of products (i.e., small business loans, consumer loans, balloon, adjustable rate and construction mortgage loans). CNB's business strategy is to focus on the small business customer. The bank's residential mortgage lending activity has been generally limited to making “accommodation loans” to existing bank customers. The bank meets traditional mortgage lending needs through its affiliate, Amera Mortgage. As of June 30, 1998, CNB had \$97 million in loans outstanding, which is comprised of 37% in commercial real estate loans, 26%

in commercial loans, 30% in residential real estate, and 7% in other loans. There are no financial, legal or other impediments limiting the bank's ability to help meet community credit needs.

The holding company is a minority owner in Amera Mortgage company. Also, the bank holds a minority interest in Michigan Bankers Title of Mid Michigan, L.L.C. These two related entities are the primary conduit for traditional cost effective residential mortgage services for their customers.

CNB was rated satisfactory at its last CRA examination as of August 31, 1995.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

This assessment area consists of 116 census tracts with a total population of 432,674. Based on 1990 Census data, there are 10 low income and 18 moderate income census tracts within the assessment area. The area also contains 62 middle income and 26 upper income tracts. The 1998 median family income for the area is \$48,800. There are 106,447 families within the assessment area. The following table summarizes the location of families, based upon census tract designation.

Location of Families			
Low Income	Moderate Income	Middle Income	Upper Income
6%	14%	57%	23%

Source: 1990 Census Data

Economic conditions within Clinton, Eaton, and Ingham Counties are good. The area has experienced job growth in the service, government, and manufacturing sectors. The unemployment rate for the Lansing area at year end 1997 was 3.0% and 3.6% for May 1998, compared to the state unemployment rate of 4.2% and 3.3% respectively. Significant local employers include General Motors, the State of Michigan, and Michigan State University as well as the public, private, and charter school systems.

The bank faces significant competition within its assessment area. Competitors include local community banks, branches of regional banks, thrift institutions, credit unions, finance companies, and subsidiaries of regional and multinational banks.

Representatives from community organizations we contacted stated CNB is helping address local credit needs. Representatives of two community-based development intermediaries said CNB is actively involved in their organizations through making community development loans, serving on their loan committees, and making financial contributions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN TO DEPOSIT RATIO

CNB's loan to deposit ratio is strong. The following table illustrates the trend in the bank's loan to deposit ratio since the last CRA examination and how it compares to its national peer group average. This peer group represents banks of a similar asset size and branch structure.

Loan To Deposit Ratio Trend				
	6/30/98	12/31/97	12/31/96	12/31/95
Bank Ratio	90.14%	80.86%	84.58%	82.93%
Peer Ratio	68.53%	66.84%	68.15%	65.43%

Source: Uniform Bank Performance Report

CNB's average loan to deposit ratio for the last two years (eight quarters) was 86.10%. This compares favorably to its peer average of 67.24%. As reflected in the table above CNB has consistently been well above its peer average.

The bank meets the community's credit needs for housing through its affiliate, Amera Mortgage. For the period of January - April of 1998, 50 loans totaling \$6 million were originated by Amera Mortgage through the CNB referral program.

LENDING IN ASSESSMENT AREA

The bank's origination of loans within the assessment area is good. The majority of the bank's lending activity is within its assessment area. The table below shows the bank's lending performance for 1996 and 1997.

Lending Within Assessment Area				
	<i>Loans Originated in 1997</i>		<i>Loans Originated in 1996</i>	
	<i>Within Area</i>	<i>Outside Area</i>	<i>Within Area</i>	<i>Outside Area</i>
# of Loans	98	24	72	14
\$ of Loans (\$000's)	4,818	2,365	4,330	1,688
% - # of Loans	81%	19%	84%	16%
% - \$ of Loans	67%	33%	72%	28%

Source: Home Mortgage Disclosure Act Loan Application Register and 1990 Census Tract

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESS OF DIFFERENT SIZES

The bank effectively lends to borrowers of all income levels. Home Mortgage Disclosure Act - Loan Application Register (HMDA-LAR) information for 1997 and 1996 was used to analyze the distribution of residential mortgage loans, including home improvement, based upon the income of the borrowers. The following table shows the distribution of those loans. It also compares the distribution of residential mortgage loans to the population distribution in the area, based upon percentage of families of each income level.

Residential Real Estate Lending Distribution by Borrower Income - HMDA Analysis								
	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% - #	% - \$	% - #	% - \$	% - #	% - \$	% - #	% - \$
1997 HMDA	12	8	17	19	33	21	30	37
1996 HMDA	8	4	11	8	16	22	26	26
% of Families	6		14		57		23	

Source: HMDA-LAR and 1990 Census

CNB's lending performance during 1997 and 1996 reflects a reasonable loan distribution to all income levels. The bank's performance is consistent with the demographics of the community.

CNB has an exemplary record of lending to small businesses. This is consistent with the bank's strategy. Call report data for the years 1996 - 1998 demonstrates the bank's strong lending performance to small businesses. Our Agency defines small business as a company with revenues of

less than \$1 million annually. Additionally, information obtained from our community contacts noted that the bank actively supports small businesses in the community via loans and qualified investments.

Loans to Small Businesses and Small Farms - Call Report Analysis			
(000's)	6-30-98	6-30-97	6-30-96
Commercial Loans	27,263	24,720	26,382
Loans to Small Businesses w/ Gross Annual Revenues less than \$1 million	25,784	24,720	25,167
%	95%	100%	96%

Source: Call Report

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans within the bank's assessment area is reasonable. The HMDA-LAR analysis of the bank's geographic distribution of loans reveals that CNB originated loans in 47% of the census tracts within its assessment area. This penetration is reasonable given the bank's limited delivery systems of one branch and no ATM's.

Loan Distribution By Census Tract Income Within Assessment Area								
	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% - #	% - \$	% - #	% - \$	% - #	% - \$	% - #	% - \$
1997 Origination	19	9	18	10	30	34	23	31
1996 Origination	15	6	22	18	22	19	35	51
% Tract Income Level for AA	9%		16%		53%		22%	

Source: HMDA-LAR and 1990 Census Data

QUALIFIED INVESTMENTS AND COMMUNITY DEVELOPMENT ACTIVITIES

The bank is an active participant in special lending programs. CNB participates in the State of Michigan Strategic Fund Capital Access Program (CAP) for small businesses. This program's key feature is that it provides access to financing that might not be available via a flexible tool to make business loans which are somewhat riskier than conventional bank loans. The fund was launched in

1986 by the State of Michigan to assist banks in expanding their markets, job creation, and improving the state's economy. Loans in the program have been made for as small as \$750 and as large as \$1.2 million. Average loan size is \$50,000. The attraction to the program is the simplified paperwork. One form is completed within 10 days after the close of the loan. At June 30, 1998 CNB had 97 loans outstanding totaling \$5.7 million. In addition to the CAP program the bank also participates in the Small Business Administration (SBA) low doc loan program. It currently has 13 loans outstanding totaling \$1.7 million.

Qualified investments within its community by the bank includes numerous public and quasi-public initiatives. The bank lent their expertise and funds to Venture Center, Inc., an incubator facility in conjunction with the Chamber of Commerce; Lansing Home Ownership Program (HOP) which gave seed monies to fund loans to low and moderate income citizens purchasing homes and assist in home purchase and ownership counseling; Lansing Neighborhood Housing Corp. receives in kind services from CNB for its loan committee; helped initiate and participates in the City of Lansing Housing Fair; was one of a seven bank consortium to fund the reclamation and construction of Olds Lugnut Park; and, regularly participates in the Chamber of Commerce Business Relocation Program, Capitol Choice II, recruiting small businesses to the greater Lansing area.

Qualified Investments by Capitol National Bank			
Qualified Investments	1998	1997	1996
Capitol Choice II	2,500	5,454	2,500
Greater Lansing Housing Coalition		250	
Lansing Housing Ownership Program			100,000
Olds Lugnut Park			500,000
Venture Center		5,000	
Total	2,500	10,704	602,500

RESPONSES TO COMPLAINTS

There has been no CRA-related complaints since the prior CRA examination.

FAIR LENDING

We did not identify any violations of the substantive provisions of antidiscrimination laws and regulations.