



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Superior National Bank & Trust Company
Charter Number: 9087**

**235 Quincy Street
Hancock, MI 49930**

**Office of the 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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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 Superior National Bank and Trust Company, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of April 29, 2002. 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 originates a majority of loans inside its assessment area.
- The bank has an above average loan-to-deposit ratio.
- The bank has an adequate distribution of loans to individuals of different income levels, including low- and moderate-income levels.
- The bank has a reasonable distribution of lending to businesses of different sizes given the demographics of the assessment area.

DESCRIPTION OF INSTITUTION:

Superior National Bank and Trust Company is a \$207 million bank with the main office located in downtown Hancock, Michigan, a middle-income Block Numbering Area (BNA). The bank operates three full-service branches located in Baraga, Calumet, and Mohawk, Michigan, all in moderate-income BNAs. The bank also operates two supermarket branches and one mall branch. One supermarket branch is located in Louie's Super Valu in Lake Linden, Michigan, in a moderate-income BNA. The other supermarket branch and mall branch are located in Houghton, Michigan, in the Econo Foods and Copper Country Mall, both in middle-income BNAs. The bank also maintains seven 24-hour ATMs: two in Baraga, two in Houghton, one at the main office in Hancock, one in Calumet, and one in Lake Linden. The branch in Mohawk was purchased from another financial institution and was opened in the summer of 2000. No offices have closed since our last CRA examination on January 6, 1997. The bank is wholly owned by the Keweenaw Financial Corporation located in Hancock, Michigan. This \$265 million bank holding company owns two banks in the northwestern Upper Peninsula (UP) of Michigan.

The bank offers traditional community bank services with a loan portfolio representing 70% of total assets as of December 31, 2001. Superior National Bank and Trust Company is primarily a

residential real estate and small business lender. The bank's loan portfolio consists of 56% residential real estate mortgages, 31% commercial loans and 13% consumer loans.

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

The previous CRA examination dated January 6, 1997 resulted in an outstanding CRA rating.

DESCRIPTION OF THE ASSESSMENT AREA:

The assessment area includes all of Baraga, Houghton and Keweenaw Counties. This area includes five moderate-income and nine middle-income BNAs. Two moderate-income BNAs are located in Keweenaw County, which comprises the entire county. Two other moderate-income BNAs are located in northern Houghton County, with the final moderate-income BNA located in Baraga County. Four of the bank's seven locations are located in moderate-income BNAs. 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 45,101, based on 1990 census data. The updated Housing and Urban Development (HUD) 2001 median family income for non-metropolitan areas in Michigan is \$42,700. A breakdown of family income levels in the assessment area shows 26% as low-income (2,781 families), 22% as moderate-income (2,298 families), 22% as middle-income (2,349 families) and 30% as upper-income (3,255 families). A total of 1,368 families have incomes below the poverty level. This represents 13% of the total number of families in the assessment area. The median housing value within the assessment area is \$31,947, with 50% of the housing units being owner-occupied.

The local economy is characterized as slow and there has been little change in industry or individual demographic composition. Tourism, logging, a state university, and two local medical centers make up the major employers in the area. Unemployment in the local area has seen an increase in the first quarter of 2002, and is slightly above the 2002 average for the Upper Peninsula of 10.5%. The 2001 average unemployment rate for Baraga County was 9.5%, with Houghton County at 5.9% and Keweenaw County at 9.9%. These percents increased to 12.4%, 8.4% and 16.3%, respectively, in the first quarter of 2002. Unemployment does typically increase in these counties during the winter months.

Competition among financial institutions remains strong in the local market. Branches of two large state banks, branches of two multi-state banks, two small community banks and a local credit union are located in the bank's assessment area.

In conducting this assessment of the bank's performance, we contacted the Executive Director of the Keweenaw Chamber of Commerce. The Executive Director believes that the credit needs of the community are being met by the local financial institutions. With the strong competition among lenders in the area, he considers access to credit by borrowers in all income levels to be satisfactory.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is above average. Superior National Bank and Trust Company's average quarterly loan-to-deposit ratio since the last examination is 79%. The average quarterly loan-to-deposit ratio for two other community banks located within the bank's assessment area is 55%. Superior National Bank and Trust Company has the largest level of average assets of these banks at \$181 million. The other banks' average assets ranged from \$38 million to \$57 million. The average loan-to-deposit ratios for the similarly situated banks range from 49% to 60% over the same time period.

Lending in Assessment Area

The bank's lending in its assessment area is good. Superior National Bank and Trust Company originates a majority of its loans inside its assessment area. This conclusion is based on an analysis of the outstanding dollar amount and number of all commercial, residential real estate and consumer loans originated or refinanced by the bank between January 2001 and April 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 system 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 - April 2002 Loan Originations		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial Loans	97%	99%
Consumer Loans	95%	94%
Residential Real Estate Mortgages	94%	94%
Total	95%	96%

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 were used in our sample and are depicted in the following tables. A sample of 20 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 – April 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	6	30%	86%
\$100 - \$500	7	35%	
\$500 - \$1,000	6	30%	7%
> \$1,000	1	5%	7%
Totals:	20	100%	100%

The table above shows 95% of the businesses sampled have revenues less than \$1 million.

The following table is based on an analysis of 40 refinanced first 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 refinanced first residential real estate mortgages originated since January 1, 2001.

Lending Distribution Based on Income Level of Refinanced First Residential Real Estate Borrowers January 2001 - April 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	13%	7%	26%
Moderate	33%	27%	22%
Middle	37%	37%	22%
Upper	17%	29%	30%
Totals	100%	100%	100%

As indicated by the above table, 46% of the number and 34% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 48% of the assessment 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 these income ranges. Second, approximately 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 refinanced first residential real estate mortgage loans sample above also indicates Superior National Bank and Trust Company has a reasonable geographic

distribution of loans throughout the assessment area, with lending evident in all BNAs. This is illustrated in the following table:

Geographic Distribution Based on Number and Dollar Amount of Loans Made in Assessment Area January 2001 - April 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	30%	23%	70%	77%
Percentage of Businesses in the Assessment Area (census information)	30%		70%	
Refinanced First Real Estate Mortgages	18%	23%	82%	77%
Percentage of Owner-Occupied Housing in the Assessment Area (census information)	50%		50%	
Total Loans	22%	23%	78%	77%

As indicated by the above table, a smaller percentage of refinanced mortgage loans were made in the moderate-income BNAs than the percentage of owner-occupied housing units in the assessment area; however, of the number of families in these moderate-income BNAs, approximately 30% are low-income. Of these low-income families, approximately 52% are below the poverty level. As explained in the lending to borrowers of different incomes and to businesses of different sizes section above, these families typically would not qualify for mortgage loan products. Additionally, there are also other financial institutions located in or near these moderate-income areas that are accessible for customers. Based on these facts, the percentage of residential real estate loan customers in the moderate-income BNAs is reasonable.

Responses to Complaints

Neither the bank nor our agency has received any CRA-related complaints since the previous evaluation.

Fair Lending Review

An analysis of 2001 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 1999.