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Comptroller of the Currency  
Administrator of National Banks

**Large Bank**

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## **PUBLIC DISCLOSURE**

May 11, 1999

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Empire National Bank**  
Charter Number 14934

851 Old Street  
Traverse City, Michigan 49685

Comptroller of the Currency  
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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.

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## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Assessment Area** - The geographic area which an institution selects as the community that its regulator will assess the institution’s record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.

**Block Numbering Area (BNA)** - A statistical subdivision of a county in which census tracts have not been established. Block numbering areas have been established by the U.S. Census Bureau in conjunction with state agencies.

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Geography** - A census tract or block numbering area as defined by the U.S. Census Bureau.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of the loan requested, and the disposition of the application, (e.g., approved, denied, withdrawn.)

**Median Family Income (MFI)** - The median income determined by the U.S. Census Bureau every 10 years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Low-Income** - Income levels that are less than 50 percent of the MFI.

**Moderate-Income** - Income levels that are at least 50 percent and less than 80 percent of the MFI.

**Middle-Income** - Income levels that are at least 80 percent and less than 120 percent of the MFI.

**Upper-Income** - Income levels that are 120 percent or more of the MFI.

**Small Business Loan** - Loans with original amounts of \$1 million or less that are secured by nonfarm nonresidential properties, or commercial industrial loans to U.S. addresses.

**Small Farm Loan** - Loans with original amounts of \$500 thousand or less that are secured by farmland, that finance agricultural production, and other farm-related loans.

**Tier One Capital** - The total of: Common shareholders' equity; perpetual preferred shareholders' equity with non-cumulative dividends; retained earnings; and minority interests in the equity accounts of consolidated subsidiaries.

## GENERAL INFORMATION

The 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 **Empire National Bank (ENB)** prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of May 11, 1999. The agency evaluates performance in assessment area(s), 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 CFR Part 25.

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

**Summary of Performance:** Key factors in reaching our conclusions regarding ENB's CRA performance are as follows:

- Empire National Bank has done a good job of responding to the lending needs of the community, as evidenced by high levels of residential, small business, and community development loans. The bank's distribution of loans to businesses of different sizes and borrowers of various income levels has been reasonable, and flexible lending practices have been used.
- Empire National Bank has made an excellent level of qualified investments relative to the bank's capacity and the available opportunities within the community. Empire National Bank has taken a leadership role in responding to affordable housing needs.
- Empire National Bank has provided an excellent level of community development services and has been highly responsive to addressing affordable housing needs. The bank's delivery systems are accessible to geographies and individuals of different income levels.

The following table summarizes the performance level of ENB with respect to the lending, investment and service tests.

Performance levels	Empire National Bank		
	Lending Test *	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

\* (Note: The lending test was weighted more heavily than the investment and service tests in determining the overall rating.)

## Description of Institution

Empire National Bank is a full-service intrastate community bank headquartered in Traverse City, Michigan. Serving the northwest counties of Michigan's Lower Peninsula, ENB operates 10 offices and 12 full-service ATMs. Empire National Bank is a wholly owned subsidiary of Empire Banc Corporation, a one-bank holding company.

As of March 31, 1999, total assets of the bank were \$478 million. The loan portfolio represented 68 percent of total assets, and consisted of residential and commercial real estate loans (81 percent), loans to consumers (nine percent), and commercial loans (10 percent). Empire National Bank's primary lending focus has been home mortgage, commercial, and small business.

There are no legal impediments that adversely affect ENB's ability to serve the community. Empire National Bank is "well capitalized" for regulatory purposes, and posted return on assets ratios of 1.28 percent and 1.35 percent in 1997 and 1998 respectively. The bank was rated "Outstanding" at the last CRA evaluation dated May 30, 1997.

## **Description of Assessment Area**

Empire National Bank's assessment area consists of Grand Traverse, Crawford, Leelanau and Kalkaska counties. The area is comprised of 31 BNA's, of which four are designated as upper-income, 26 as middle-income, and one as moderate income. The assessment area is consistent with CRA requirements. The moderate-income tract is located in Kalkaska County. According to 1990 U.S. census data, 14 percent of the area's families are low-income, 17 percent are moderate-income, 24 percent are middle-income and 45 percent are upper-income. Located approximately 260 miles northwest of Detroit, Traverse City is the retail and economic center of northwest Michigan.

The local economy is service-oriented and tourism is a primary industry. The entire region has undergone dramatic economic growth in the past few years. This is based on data supplied by local government and the chamber of commerce. An increase in the population, a high level of new home building, and an increase in the number of small businesses have occurred in the past few years. Residential housing starts have increased in spite of escalating land prices. The current population of the four county area is 156,000 which represents a 14 percent increase from the 1990 level.

Major employers in the market are Munson Healthcare, Traverse City Public Schools, United Technologies, Grand Traverse Resort and Northwestern Michigan College. The latest unemployment data shows an area average of 3.9 percent, compared to the state average of 4.5 percent.

According to 1998 Dunn & Bradstreet business data, there are 6,890 businesses and farms in the bank's market area, with 77 percent having annual sales of \$1 million or less. Approximately 74 percent of these businesses are located in middle-income areas, 25 percent are located in upper-income areas and less than one percent were located in the moderate-income area.

Empire is one of nine federally insured financial institutions with offices in this market. Competition is provided by credit unions, savings banks, and branches of regional banks. Based on June 30, 1998, FDIC deposit data, ENB has the second largest deposit base in the four county assessment area with 31.7 percent of the deposit market.

Five community contacts were made during the evaluation. These contacts included a chamber of commerce, two county government offices, a local housing commission, and a realtor association. The contacts stated the primary credit need is lending for affordable housing. The need for affordable rental housing is significant due to high land costs and the limited supply of vacant land available for housing developments. The need for more small business financing was also identified.

High land values in many portions of the assessment area make affordable housing especially difficult for residents in the lower-income brackets. Data from the National Low Income Housing Coalition reflects that within the four counties comprising the bank's assessment area, 32 to 39 percent of the area's population can not afford the average cost of renting a two-bedroom apartment. Discussions with the local realtor association indicated that during 1998, only 19 percent of area homes sold for less than \$70,000. Based on current interest rates, the 1998 state non-MSA median family income of \$37,100 and lending standards, this is the approximate maximum home value that low-income individuals could afford.

Qualified investment opportunities have been limited in this market. This conclusion is based on discussions with local government officials, our review of CRA performance evaluations of other banks operating in the area, research on the internet, and a discussion with a representative of the Federal Reserve familiar with the recent evaluations of other banks operating in the area. We identified five organizations that are actively addressing affordable housing needs in this area. Our research identified two sizeable affordable housing projects and one small project (duplex) which had taken place in the past two years. Other than participating in these projects and supporting community organizations, no other investment opportunities were identified.

## **Conclusions with Respect to Performance Criteria**

This evaluation covers activity from May 1997 to May 1999. Our analyses of lending data focused on residential, small business, and small farm loan information from 1997 and 1998 as reflected in the Tables 1-11 in the appendix to this evaluation. Community development and qualified investment activities from May 1997 to May 1999 were considered. The bank's assessment area is not within a MSA and ENB is not a HMDA reporter. Therefore, market share data is not available for residential home lending activity. The bank does not track home improvement lending activity as an individual loan type. As data was not readily available, home improvement lending was not considered during this evaluation.

We found that ENB has been very responsive to addressing the credit needs of the community. This is especially so in relation to the bank's size and resources, as well as the opportunities present within the market.

## **Lending Test**

Empire National Bank's lending activity shows a high level of response to identified credit needs within its assessment area. This assessment is based on high volumes of mortgage and small business lending, a high level of community development lending activity, flexible underwriting, a good record of lending throughout the assessment area, and reasonable levels of lending to applicants of all income levels.

## ***Lending Activity***

Empire National Bank has made a high volume of loans, especially in relation to its size and presence in the market. Table 1 reflects the bank's lending activity during 1997 and 1998. The bank offers a full range of lending products; however, its major focus is on home mortgage loans and lending to small businesses.

In 1997 the bank originated 842 loans secured by residential mortgages totaling approximately \$81 million. In 1998, originations increased to 1,710 loans for over \$174 million. While ENB is not a HMDA reporter, the other major lenders (including the bank with the largest deposit base) within the area are. Based on 1997 aggregate HMDA data (the most recent available) and ENB data, ENB was the leader in home mortgage (home purchase and home refinance) originations in their assessment area, and also the leader in lending to low-income individuals and moderate-income individuals. This is especially good when considering ENB competes with mortgage companies and regional institutions, and has the second largest deposit base within the assessment area.

In addition to the home mortgage loans reflected in the tables, ENB originated 59 mobile home loans totaling \$1.4 million during 1997 and 1998. This is responsive to a need in the market that other local lenders do not address. A high percentage of these loans have been made to low- and moderate-income individuals. Refer to the "Lending to Borrowers of Different Incomes" section for additional information.

Empire National Bank is an active small business lender. During the evaluation period they originated 950 small loans to businesses for \$78.7 million. This resulted in an average loan size of \$82,800.

Small farm lending has been limited. During the 1997-1998 two-year period, ENB originated six small loans to farm related entities totaling \$235,000.

## ***Community Development Loans***

As reflected in Table 1, ENB has originated 11 CD loans totaling \$5.7 million. This level of activity is high, and demonstrates a very good responsiveness to addressing community credit needs. In drawing this conclusion, we gave consideration to the bank's size and capacity for CD lending, the local competition, and the limited opportunities for CD lending in the area. Empire National Bank's CD lending has focused primarily on addressing affordable housing, a primary identified credit need. Empire National Bank's CD lending activity is summarized below.



- In 1998 and 1999 ENB originated \$4 million in loans to a local Native American tribe. A \$3 million line of credit is being used by the tribal government to provide social services to members residing on the reservation, and to construct affordable housing. The majority of the tribal members residing on the reservation are low- and moderate-income individuals. An additional loan of \$450,000 was originated for the tribe to purchase additional land to construct affordable housing for tribe members. Two other loans were made to purchase vehicles and equipment for use on the reservation.
- The bank originated a \$1.4 million loan to construct a building for a health care clinic in Leelanau County. The clinic provides a multitude of services and programs to county residents. More than 50 percent of the clinic's budget is allocated toward providing programs and services designated for low- and moderate-income families.
- Empire National Bank has worked with a local builder specializing in affordable housing projects. In 1998, the bank extended five loans totaling approximately \$261,000 for housing projects. Loan proceeds were used to purchase land and construct homes on the property. These homes are priced to allow low- and moderate-income borrowers an opportunity to purchase affordable housing.
- In 1998 ENB originated a \$28,000 loan to a non-profit organization, which provides social services to low- and moderate-income individuals. Part of their commitment to the community includes providing temporary shelter for homeless people. The bank's loan made it possible for this organization to provide temporary affordable housing.

In addition to the loans listed above, the bank originated other loans with "CD" characteristics. Because these loans are included in the bank's small business lending totals, they are not counted as CD loans. However, a sample of these loans is provided to emphasize the bank's overall commitment to CD lending within the community.

- A \$249,000 loan to finance an area factory, which saved 250 low- and moderate-income jobs.
- A \$50,000 loan to develop a mobile home park for low- and moderate-income housing.
- A \$70,000 loan to a local developer for a low- and moderate-income housing project.

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

During 1997 and 1998, the bank originated 2,552 mortgage related loans. Tables 7 and 9 reflect that 14 percent of the families in the bank's assessment area are low-income and 17 percent are moderate-income. In comparison, the tables reflect the following ENB loan activity:

Three percent of ENB's home purchase loans and two percent of home refinance loans were made to low-income applicants; 15 percent of ENB's home purchase and nine percent of home refinance loans were made to moderate-income individuals.

While the percentages of ENB's loans to low-income and moderate-income individuals are low in comparison to the demographic characteristics of the area, we considered ENB's mortgage lending to these segments of the market to be reasonable overall. In drawing this conclusion we considered the following: 1) Empire National Bank's percentage of lending to low-income and moderate-income borrowers exceeds the average loan activity for the HMDA reporters in the market. The latest (1997) HMDA data showed only three percent of the mortgages were originated to low-income borrowers and 11 percent to moderate-income borrowers. With nearly 2,800 loans reported in aggregate, there were 22 reporters originated 10 loans or more.

2) Local land values are high. According to the local realtor association, the average selling price of a house within the past year was approximately \$130,000. A realtor association survey reflected that only 19 percent of homes sold in 1998 were for less than \$70,000. Based on bank lending standards, low-income individuals would have a difficult time qualifying for a loan based on income. 3) Empire National Bank has addressed the affordable housing need by offering loans secured by mobile homes. Empire National Bank is the only bank in the local market that offers financing for mobile homes.

During 1997 and 1998 the bank originated

59 mobile home loans for \$1.4 million. These loans are not reflected in the mortgage numbers on the tables in the appendix. Seven (12 percent) of these loans were made to low-income borrowers and 23 (39 percent) were to moderate-income borrowers. The relatively high cost of home ownership increases the importance of this type of financing.

The percentage of ENB's home purchase lending to moderate-income individuals is reasonable, as it is similar to the percentage of moderate-income families in the community. More weight is given to home purchase lending than home refinance loans. The relatively high cost of housing and the low levels of lending to low-income applicants by the aggregate market indicate that the lending opportunities to the low-income segment of the market are limited. Therefore, we concluded that ENB's lending to low-income individuals is reasonable, especially given its additional mobile home lending activity.

Empire National Bank's small business lending record is good. As reflected in Table 10, 75 percent of ENB's loans were to businesses with revenues of \$1 million or less. This is substantially similar to the 77 percent of area businesses that have annual sales levels of \$1 million or less, according to Dunn & Bradstreet demographic data. Furthermore, the average loan size was \$82,800. Approximately 76 percent of loans were for less than \$100,000 in size. This demonstrates ENB's willingness to make loans of all sizes, including small loans.

### ***Innovative and Flexible Lending Practices***

We gave positive consideration to ENB's lending practices, which have helped to address the needs of the low- and moderate-income individuals through flexible and innovative methods.

During 1998 the bank extended loans for more than \$1 million under MSHDA loan programs. Michigan State Housing Development Authority (MSHDA) was established by the state's legislature in 1966 to address the housing needs of low- and moderate-income families, elderly people, and those with disabilities. Michigan State Housing Development Authority products feature low down payments

(zero to five percent) and reduced interest rates. These features are considered flexible, as they are not offered with traditional financing.

Empire National Bank is the only bank in the area offering home equity lines of credit secured by mobile homes. Furthermore, the bank is the only lender in the area extending loans secured by 'used' mobile homes. This type of lending provides low-cost housing loans to low- and moderate-income individuals who would not qualify for traditional residential lending programs. Financing mobile homes is considered flexible in that provides loans using an alternative type of collateral. While the number of used mobile home loans made by ENB was not readily available, we did observe this activity during our evaluation.

### ***Geographic Distribution of Loans***

There are no designated low-income sections of ENB's assessment area, and only one moderate-income BNA. Therefore, a geographic distribution analysis by income category is not meaningful. Regardless, it is noted that 76 percent of ENB's mortgage and small business loans were originated within its assessment area during the 1997-1998 period. Furthermore, the bank originated each principal loan product (home purchase, home refinance, and small business) in each BNA within the assessment area during the evaluation period. Based on a sample of internal data, the bank's lending activity displays a reasonable distribution of loans throughout the assessment area.

### **Investment Test**

Empire National Bank's qualified investments total \$1,365,117, as reflected in Table 12. This is an excellent level of investments given the bank's capacity and market characteristics. Of primary importance is that ENB's investment activities have demonstrated excellent responsiveness to identified credit needs. Our conclusions regarding ENB's qualified investment performance considered the following factors: 1) The opportunities for making qualified investments are limited in the bank's assessment area. Other than participating in two affordable housing projects and supporting community organizations, no other investment opportunities were identified. 2) Empire National Bank's qualified investments, all of which were made during the evaluation period, represent four percent of the bank's capital level. This is considered high for a bank of this size in a market with limited investment opportunities.

3) Qualified investments are responsive to affordable housing, the primary credit need identified. Empire National Bank investments have helped support both of the two sizeable affordable housing projects in the area. The bank proactively took steps to gain involvement in one of those major projects. Furthermore, ENB grants have supported CD activities, including nearly all of those actively addressing affordable housing initiatives. 4) None of the qualified investment opportunities identified in the market area are innovative or complex in nature. Based on the size of the bank and the nature of the market, we placed greater emphasis on ENB's responsiveness. The following summarizes ENB qualified investments:

**Michigan Capital Fund for Housing (MCFH):** Empire National Bank invested \$1 million in 1998 in a limited partnership unit of the MCFH. The partnership is comprised of investors totaling \$20

million. Michigan Capital Fund for Housing is a non-profit housing corporation whose mission is to promote and advance safe, decent, and affordable housing by raising equity dollars to invest in affordable apartments throughout the state of Michigan which qualify for low-income tax credits. In order for the property to be eligible for tax credit, the income of the tenants can be no greater than 60 percent of the area median income, adjusted for family size. Since the creation of MCFH in 1993, the organization has been responsible for the construction or rehabilitation of over 1,200 units of housing. One of the project investments of the partnership is a 150 unit affordable housing project (Bay Hill 1) located within the bank's assessment area. The partnership invested \$1 million in the \$7.5 million project.

**Bay Hill II:** Empire National Bank approached the MCFH in 1999 for opportunities to invest additional funds in the multi-phase Bay Hill housing project. As a result of these discussions, ENB made a \$230,117 investment in Bay Hill II, an affordable housing development located in Traverse City. This \$6 million new construction project will contain a total of 72 one, two and three bedroom apartments, and two and three bedroom townhouse units. Of these, 36 (50 percent) will be designated as affordable housing for households with income at or below 60 percent of the area median household income.

**Community Development Grants:** Empire National Bank provided grants totaling \$125,000 to local non-profit organizations for various projects and CD initiatives. The primary grants are summarized below.

- In 1998, the bank pledged \$25,000 over a 10-year period to the Munson Regional Healthcare Foundation. Funds are being used to renovate a cottage on the old State Hospital Grounds in Traverse City, with completion scheduled for 2000. The facility will be used as an affordable hospitality house for outpatients and families of inpatients prior to and during hospital care. This is targeted toward low- and moderate-income individuals. We gave positive consideration in the amount of \$5,000 to reflect funds provided in 1998 and 1999.
- Empire National Bank has provided annual grants to three Habitat for Humanity affiliates. These chapters are located in Grand Traverse region, Kalkaska county and Crawford county. This organization addresses affordable housing for low- and moderate-income individuals.
- Empire National Bank provided grants to the Grand Traverse Area United Way, with funds to be specifically allocated to organizations whose purpose is to provide services targeted to low- and moderate-income individuals.
- An ENB grant was provided to Munson Women's Center to build a birthing center for underprivileged mothers who are primarily low- and moderate-income.
- Funds were provided to the Women's Resource Center. The purpose of this non-profit organization is to provide food, shelter, and job training for battered women and their children, the majority being low- and moderate-income individuals.

- Empire National Bank contributed funds to Leelanau Memorial Health Center to support the continuing operations of the clinic. A majority of patients are low- or moderate-income.
- Funds were provided to Leelanau Memorial Hospital for senior housing and care. The focus is to aid low- and moderate-income individuals.

## **Service Test**

Empire National Bank has been a leader in and provided a high level of CD services that have been very responsive to addressing community needs. The bank's delivery systems are accessible to geographies and individuals of different income levels in its assessment area. In drawing our conclusions we gave consideration to the bank's capacity, level of expertise, and characteristics of the market. As the assessment area has no low-income segments and only one moderate-income BNA, a distribution analysis provides limited meaningful information. Therefore, we placed more weight on the bank's CD service activity.

### ***Community Development Services***

Empire National Bank has provided an excellent level of CD services throughout its assessment area. The bank has specifically targeted their CD service efforts on affordable housing in response to an identified need within their assessment area. Bank personnel have taken leadership roles in local organizations that provide services to various members of the community. The bank's leadership with the local chapter of Habitat for Humanity is given particular positive consideration, as this organization is the primary catalyst in addressing the need for affordable housing in this community. Overall, ENB is actively involved with four of the five housing organizations within the assessment area. The remaining organization indicated they didn't need the bank's assistance at this point in time.

A key aspect of ENB's success in supporting CD initiatives has been providing flexible work schedules to accommodate personnel involved with outside organizations. Additionally, the bank has paid for training for some individuals as part of their involvement/duties in non-profit projects such as the FHLB lending program.

Bank personnel and senior management are actively involved in local organizations that provide services to low- or moderate-income households. These commitments involve time, resources and/or expertise. Several of the organizations serve all four of the counties that comprise the bank's assessment area. The following list of organizations represent the major highlights of the bank's community service activities during the rating period.

**Habitat for Humanity:** A senior bank officer actively serves on the Grand Traverse Habitat for Humanity Board of Directors and is the Chairperson for the Family Selection Committee. As Chairperson, the bank officer expanded the committee from three individuals to ten by recruiting other members of the community. Furthermore, the Chairperson was responsible for developing loan

standards, underwriting criteria and processing systems that facilitated the committee's role of reviewing loan requests. Habitat has provided an average of eight affordable homes over the past three years to low- or moderate-income families. Only one other organization in the community has provided housing through this type of process during this time period.

Another key activity for Habitat for Humanity is education. Seminars are conducted and counseling is provided on affordable housing throughout the year for both low- and moderate-income individuals and other members of the community. The bank officer has taken a leadership role by personally providing financial counseling to a low-income family during this past year.

This chapter's growth has resulted in Habitat chapters being formed in two adjoining counties, both within the bank's assessment area. These organizations have also provided affordable housing to low- and moderate-income families in their respective areas.

**Friends for Families:** A senior bank officer has actively counseled two families under this program. These services include financial planning, legal services and housing issues. This organization's primary goal is to provide ongoing aid and counseling to low- and moderate-income families in the area.

**Grand Traverse Affordable Task Force:** A senior bank officer has served on this task force since 1997. This individual also served on the education subcommittee during this same time period. The task force is primarily concerned with housing issues for low- and moderate-income families in the five county area surrounding Traverse City. Their main goals are to encourage affordable housing development, provide community education regarding housing needs, provide a networking structure, and advocate an affordable housing policy within the community.

**Conflict Resolution Center:** A senior bank officer of the bank has served as a "hands on" mediator in counseling sessions for numerous families during the past year for this organization. Primarily, this non-profit organization provides counseling and guidance to low- and moderate-income families who can not afford such services. This includes both legal and financial counseling. These "one on one" sessions by the bank officer demonstrates the bank's leadership role in providing specific expertise to low- and moderate-income families. This individual has also served on the board of directors for this organization for several years.

**Housing Seminars:** The bank has taken a leadership role in providing education to members of the community regarding affordable housing. Empire National Bank has sponsored and/or conducted housing seminars targeted primarily toward low- and moderate-income families during the past two years. Members of the bank's staff conducted ten seminars and provided follow-up training for topics such as the loan application process and budgeting. Two of the seminars were presentations to the local Native American tribe. Loan department personnel have also conducted affordable housing seminars for people buying modular homes. Two of these seminars were presented in 1998 to a total of 40 consumers.

**Federal Home Loan Bank:** Members of management and bank staff assist non-profit organizations with applications for funds in the FHLB program. During 1998, these organizations included affordable housing and low-income individuals. Additionally, ENB personnel participate in annual FHLB training seminars to ensure all applications are prepared properly. The bank typically handles two or three such applications every year.

**Other Organizations:** In addition to organizations listed above, members of the bank's staff also participate in organizations that provide education and other services to low- and moderate-income individuals in the community. These organizations include Junior Achievement, United Way, local planning boards, and Economic Development Corporation. One of ENB's senior officers has served as President and Vice President of the local United Way organization during the past two years, which demonstrates their leadership in these organizations.

Empire National Bank has actively worked with the local Native American tribe in efforts to provide loans for affordable housing. The bank is one of a very few lenders in Michigan approved to make loans under the U.S. Department of Housing and Urban Development's 184 Indian Home Loan Guarantee Program. These home loans are specifically designed for tribal members on trust land or Indian areas. Empire National Bank has not originated any loans under this program, however the bank has developed similar product also targeted to Native Americans. Bank personnel continue to provide technical expertise to the tribe as previously discussed.

**Low-Cost Products:** Empire National Bank offers a no minimum balance checking account that allows customers, including those who are low- and moderate-income, to maintain accounts without burdensome fees. The bank also offers a reduced-fee checking account tailored to senior citizens on fixed incomes.

### ***Retail Banking Services***

Empire National Bank's delivery systems are reasonably accessible to geographies and individuals of different income levels. As the assessment area has no low-income segments and only one moderate-income BNA, a distribution analysis provides limited meaningful information.

The bank operates 10 full-service offices and 12 full-service ATM's throughout the assessment area. The offices are located in the cities and towns where the population is based. Empire National Bank has the highest number of offices serving the area. Table 13 reflects how the offices are distributed by geography income level. While ENB does not have a branch located in the single moderate-income geography, only two percent of the assessment area's population is located there. All offices are full-service, with reasonable hours of operation. All of the branch locations except one maintain Saturday hours. This branch maintains Saturday hours only in the summer.

### ***Changes in branch locations***

Empire National Bank has not closed or opened any offices the past two years. However, ENB added an ATM location within the assessment area since the last evaluation.

*Alternative systems for delivering retail banking services*

Empire National Bank's customer delivery system is enhanced by the its ATM network.

**Fair Lending**

We did not identify any violations of the anti-discrimination laws and regulations. The scope of our fair lending review included comparing a sample of mortgage files for male applicants who were granted credit to a sample of files of female applicants who were denied credit. We found that the bank's underwriting standards were applied consistently. Since the last evaluation the bank has received no fair lending complaints.



## APPENDIX

### **Scope of Evaluation**

The evaluation assessed ENB's CRA performance as outlined below.

- The bank's single assessment area was assessed using full-scope procedures for large banks.
- The period of review was May 30, 1997, (date of the last evaluation) to May 11, 1999. Loan data from 1997 and 1998 was used for analytical purposes.
- Loan data consisted of the bank's mortgage lending data (ENB is not a HMDA reporter) and reported small business and small farm data. Community development loan information from the entire evaluation was considered. Aggregate 1997 HMDA data reflecting activity of HMDA reporters was used to help put ENB's lending performance into perspective.
- No affiliate lending, qualified investment, or service activity was considered.

**Table 1. Lending Volume**

LENDING VOLUME													State: Michigan	Evaluation Period: January 1, 1997 To December 31, 1998*
MSA/Assessment Area:	% of Total Bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farm		Community Development		Total Reported Loans		% of Total Reported Bank Loans in Rated Area		
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)			
Full-Scope:														
Empire NB Assessment Area	100%	2,552	\$255,962	950	\$78,657	6	\$235	11	\$5,689	3,519	\$340,543	100%		

\* Community Development Lending activity reflected is from May 1997 to May 1999

**Table 2. Geographic Distribution of Home Purchase Loan Originations**

Geographic Distribution: HOME PURCHASE																	State: Michigan	Evaluation Period: January 1, 1997 To December 31, 1998
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans			
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total		
Full-Scope:																		
Empire NB Assessment Area	0%	0%	2%	NA	72%	NA	26%	NA	NA	NA	NA	NA	NA	NA	965	100%		

Geographic distribution information is not available. A sample was not taken, as this analysis was not considered meaningful given market characteristics

(\*) Based on 1997 Aggregate HMDA Data only. ENB is not a HMDA reporter.

**Table 3. Geographic Distribution of Home Improvement Loan Originations**

Geographic Distribution: HOME IMPROVEMENT		State: Michigan				Evaluation Period: January 1, 1997 To December 31, 1998										
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Empire NB Assessment Area	0%	0%	2%	NA	72%	NA	26%	NA	NA	NA	NA	NA	NA	NA	NA	NA

(\*) Based on 1997 Aggregate HMDA Data only. ENB is not a HMDA reporter.  
 Note: ENB did not track home improvement lending activity during this period.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations**

Geographic Distribution: HOME REFINANCE		State: Michigan				Evaluation Period: January 1, 1997 To December 31, 1998										
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank	Market Share by Geography					Total Home Mortgage Refinance Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Empire NB Assessment Area	0%	NA	2%	NA	72%	NA	26%	NA	NA	NA	NA	NA	NA	NA	1,587	100%

Geographic distribution information is not available. A sample was not taken, as this analysis was not considered meaningful given market characteristics.  
 (\*) Based on 1997 Aggregate HMDA Data only. ENB is not a HMDA reporter.

**Table 5. Geographic Distribution of Small Business Loan Originations**

Geographic Distribution: SMALL BUSINESS State: Michigan Evaluation Period: January 1, 1997 To December 31, 1998																
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Business Loans	
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Empire NB Assessment Area	0%	0%	4%	3%	63%	69%	33%	28%	10	10.2%	NA	0.0%	8.0%	16.7	950	100%

(\*) Based on 1997 Aggregate Small Business Data only.

**Table 6. Geographic Distribution of Small Farm Loan Originations**

Geographic Distribution: SMALL FARM State: Michigan Evaluation Period: January 1, 1997 To December 31, 1998																
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans	
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Empire NB Assessment Area	0%	0%	0%	0%	100%	100%	0%	100%	25	2.0%	NA	0.0%	2.6%	NA	6	100

(\*) Based on 1997 Aggregate Small Farm Data only.

**Table 7. Borrower Distribution of Home Purchase Loan Originations**

Borrower Distribution: HOME PURCHASE																
State: Michigan				Evaluation Period: January 1, 1997 To December 31, 1998												
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Purchase Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Empire NB Assessment Area	14%	3%	17%	15%	24%	25%	45%	57%	NA	NA	NA	NA	NA	NA	965	100%

(\*) As a percentage of loans with borrower income information available. No information was available for 3.8% of loans originated by ENB.

(\*\*) Based on 1997 Aggregate HMDA Data only. ENB is not a HMDA reporter.

**Table 8. Borrower Distribution of Home Improvement Loan Originations**

Borrower Distribution: HOME IMPROVEMENT																
State: Michigan				Evaluation Period: January 1, 1997 To December 31, 1998												
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Improvement Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Empire NB Assessment Area	14%	NA	17%	NA	24%	NA	45%	NA	NA	NA	NA	NA	NA	NA	NA	NA

(\*) As a percentage of loans with borrower income information available.

(\*\*) Based on 1997 Aggregate HMDA Data only. ENB is not a HMDA reporter.

Note: ENB did not track home improvement lending activity during this period.

**Table 9. Borrower Distribution of Home Mortgage Refinance Loan Originations**

Borrower Distribution: HOME MORTGAGE REFINANCE		State: Michigan				Evaluation Period: January 1, 1997 To December 31, 1998										
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Mortgage Refinance Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Empire NB Assessment Area	14%	2%	17%	9%	24%	25%	45%	64%	NA	NA	NA	NA	NA	NA	1,587	100%

(\*) As a percentage of loans with borrower income information available. No information was available for 1.8% of loans originated by ENB.

(\*\*) Based on 1997 Aggregate HMDA Data only. ENB is not a HMDA reporter.

**Table 10. Borrower Distribution of Small Business Loan Originations**

Borrower Distribution: SMALL BUSINESS		State: Michigan				Evaluation Period: January 1, 1997 To December 31, 1998						
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans			
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size	
Full-Scope:												
Empire NB Assessment Area	77%	75%	62%	76%	13%	9%	10.2%	13.3%	950	100%	\$82,800	

(\*) As a percentage of businesses with known revenues.

(\*\*) As a percentage of loans with revenue information available. No information was available for 3.4% of loans originated by ENB.

(\*\*\*) The market consists of all other Small Business reporters in ENB's assessment area and is based on 1997 Aggregate Small Business Data only.

(\*\*\*\*) Based on 199X Aggregate Small Business Data only.

**Table 11. Borrower Distribution of Small Farm Loan Originations**

Borrower Distribution: SMALL FARM State: Michigan Evaluation Period: January 1, 1997 To December 31, 1998											
MSA/Assessment Area:	Farms with Revenues of \$1 million or less			Loans by Original Amount Regardless of Farm Size			Market Share****		Total Small Farm Loans		
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$500,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full-Scope:											
Empire NB Assessment Area	90%	100%	90%	100%	0%	0%	2.0%	2.2%	6	100%	\$45,000

(\*) As a percentage of farms with known revenues.

(\*\*) As a percentage of loans with revenue information available. No information was available for 17% of loans originated by ENB.

(\*\*\*) The market consists of all other Small Farm reporters in ENB's assessment area and is based on 1997 Aggregate Small Farm Data only.

(\*\*\*\*) Based on 1997 Aggregate Small Farm Data only.

**Table 12. Qualified Investments**

QUALIFIED INVESTMENTS State: Michigan Evaluation Period: June 1, 1997 To May 11, 1999									
MSA/Assessment Areas:	Prior Period Investments*			Current Period Investments			Total Investments		
	#	\$( 000'a)	%	#	\$( 000's)	%	#	\$(000'a)	%
Full-Scope:									
Empire NB Assessment Area	0	0	0	10	1,365	100%	10	\$1,365	100%

(\*) Prior Period Investments means investments made in a previous evaluation period that remain outstanding.

(\*\*) Percentage of the dollars invested in that MSA/Assessment Area that are prior period investments or current period investments.

**Table 13. Distribution of Branch and ATM Delivery System**

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM																	
			State: Michigan					Evaluation Period: June 1, 1997 To May 11, 1999									
MSA/Assessment Area:	Deposits	Branches						ATMs						Population			
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full-Scope:																	
Empire NB Assessment Area	100%	10	100%	0%	0%	60%	40%	12	100%	0%	0%	60 %	40%	0%	2%	72%	26%