



PUBLIC DISCLOSURE

June 7, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MFC First National Bank
205 West Aurora Street
Ironwood, MI 49938**

Charter # 14456

**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 MFC First National Bank, Ironwood, Michigan prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 7, 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 Record of Meeting Community Credit Needs**.

- o The bank has a reasonable distribution of lending to businesses of different sizes given the demographics of the assessment area.
- o The bank originates a majority of its loans inside the assessment area.
- o The bank has a good distribution of loans to consumers in moderate-income block numbering areas.
- o The bank has a more than reasonable loan-to-deposit ratio.

DESCRIPTION OF INSTITUTION:

MFC First National Bank is a \$89 million institution with the main office located at 205 West Aurora Street, Ironwood, Michigan in a moderate-income block numbering area (BNA). The bank also has one branch located in Ironwood, within the same BNA as the main office, and operates one ATM which is located at the branch. No offices have been opened or closed since our last CRA examination, dated March 20, 1995.

The bank offers traditional community bank services with a loan portfolio representing 74% of total assets as of March 31, 1999. The loan portfolio consists of 31% residential real estate mortgages, 55% commercial loans and 14% consumer loans. The bank is 100% owned by Michigan Financial Corporation (MFC), a multibank holding company with seven national bank subsidiaries located throughout the upper peninsula of Michigan. There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

DESCRIPTION OF THE ASSESSMENT AREA:

The bank's assessment area consists of eighteen BNAs located in Michigan and Wisconsin. The BNAs located in Michigan cover all of Gogebic County (7 BNAs) and the western half of Ontonagon County (1 BNA). The Michigan area consists of five middle-income and three moderate-income areas. The BNAs located in Wisconsin cover all of Iron County (4 BNAs), the eastern half of Ashland County (2 BNAs) and the northwestern portion of Vilas County (4 BNAs). Two of these BNAs are middle-income and eight are moderate-income areas.

The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The population of the bank's assessment area is 32,485, based on 1990 census data. The median family income from the 1990 census for Michigan is \$27,894 and \$30,290 for Wisconsin. The updated Housing and Urban Development (HUD) 1998 median family income for non-metropolitan areas is \$37,100 for Michigan and \$41,800 for Wisconsin. A breakdown of family income levels in the assessment area shows 25% as low-income (2,286 families), 24% as moderate-income (2,138 families), 24% as middle-income (2,214 families) and 27% as upper-income (2,422 families). 11% of the number of families are below the poverty level. The median housing value within the assessment area in Michigan is \$26,164, with 52% of the housing being owner occupied. The median housing value within the assessment area in Wisconsin is \$51,533, with 32% of the housing being owner occupied.

The local economy has been impacted in recent years by the closures of several major employers, including Copper Range Mine, Norco Windows and Connors Forest Products. Current economic conditions for the area continue to be moderately depressed, with unemployment rates considerably higher than respective state averages. To illustrate, unemployment rates for the month of April 1999 (the most recent data available) were 3.8% for the state of Michigan and 3.3% for the state of Wisconsin. The unemployment rates for the two counties which have a majority of the bank's loan customers for the same month are as follows: Gogebic County, Michigan - 11.5%; and Iron County, Wisconsin - 9.7%. The unemployment rate for the upper peninsula of Michigan for that month was 8.0%. The primary economic activities in the area continue to be tourism and logging. Major employers include several ski hills, Ironwood Area Schools, Gogebic Community College and Gogebic Medical Care Facility.

Competition among financial institutions in the assessment area is strong with several other banks, branches of out of area banks, and credit unions located in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending in the Assessment Area:

MFC First National Bank originates a majority of its loans inside its assessment area. This conclusion is based on the dollar amount and number of a sample of 25 commercial loans, 25 residential real estate mortgages and 50 consumer loans originated or refinanced by the bank over the last 12 months. Customer location was determined using street address, city, and zip

codes, and plotting on road maps and assessment area BNA maps. The following table illustrates the level of lending inside the bank's assessment area:

Penetration of Lending Inside the Bank's Assessment Area		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial & Agricultural Loans	92%	78%
Residential Real Estate Mortgages	100%	100%
Consumer Loans	98%	99%
Total	97%	80%

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

The bank does a reasonable job of lending to borrowers of different income levels and to businesses of different sizes. Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to several million dollars. A random sample of 25 commercial customer files indicates the following breakdown of annual revenues:

Lending Distribution Based on Revenue Size of Businesses		
Revenue Size of Businesses Sampled \$(000's)	Bank Lending Distribution by Number of Loans	Percentage of Businesses in each Revenue Category (census information)
< \$100	24%	93%
\$100 - \$500	28%	
\$500 - \$1,000	12%	
> \$1,000	24%	7%
Revenue not reported	12%	N/A
Totals	100%	100%

The following table is based on an analysis of 75 consumer loan files containing income information for the borrower. The files were from those reviewed during our examination of the bank's compliance with consumer laws and regulations. These files were for unsecured consumer loans and residential real estate mortgage products. Customers were randomly selected from all unsecured consumer loans and residential real estate mortgages originated since March 1999.

Lending Distribution Based on Income Level of Consumer Borrowers March 1999 - June 1999 Consumer 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	20%	4%	25%
Moderate	33%	14%	24%
Middle	22%	44%	24%
Upper	17%	36%	27%
Income not reported	8%	2%	N/A
Totals	100%	100%	100%

As indicated by the above table, 53% of the number and 18% of the dollar value of loans were made to low- and moderate-income borrowers. The percentage of loans to low-income borrowers, both in number and dollar amount, is below the characteristics of the assessment area. However, given that approximately 43% of the low-income families in the assessment area have incomes below the poverty level, this distribution is considered reasonable. The percentage of dollar volume of loans to low- and moderate-income individuals reflects the smaller dollar loans that are typically made in those income ranges.

Loan-to-Deposit Analysis:

The bank's average quarterly loan-to-deposit ratio from June 1996 through March 1999 is 86%. This ratio is more than reasonable given the bank's size, financial condition and lending opportunities within its assessment area. MFC First National Bank Ironwood had the highest average loan-to-deposit ratio compared to four other similarly situated banks in its assessment area. These four banks had average loan-to-deposit ratios ranging from 59% to 81% over the same time period. The average loan-to-deposit ratio of the five banks in the assessment area was 74%.

Geographic Distribution of Loans:

Our analysis of the loan portfolio also indicates there is a good geographic distribution of customers throughout the assessment area. The locations of the loan customers were determined using their home address and maps of the counties within the assessment area.

The following table shows the geographic distribution of a sample of 25 commercial loans, 25 residential real estate mortgages and 50 consumer loans originated or refinanced by the bank over the last 12 months. Low- and upper-income BNAs were not considered as the bank's assessment area does not include either of those BNAs. The table indicates that the percentage of loan customers in moderate-income BNAs approximates the population in those BNAs.

Geographic Distribution based on Number and Dollar Amount of Loans Made in BNA				
Loan Type	%of Number Located in Moderate-income BNAs	% of Dollar Amount Located in Moderate-Income BNAs	% of Number Located in Middle-Income BNAs	% of Dollar Amount Located in Middle-Income BNAs
Commercial Loans Made in BNA	70%	59%	30%	41%
Real Estate Mortgages Made in BNA	60%	64%	40%	36%
Consumer Loans made in BNA	57%	60%	43%	40%
Total Loans Made in BNA	61%	59%	39%	41%
Population in the Assessment Area (census information)	53%		47%	

Response to CRA Related Complaints:

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

Compliance with Antidiscrimination Laws:

MFC First National Bank is in compliance with applicable antidiscrimination laws and regulations. We compared loan rates and terms for 50 unsecured approved loans to determine if the bank is treating applicants differently because of gender. We found no evidence of disparate treatment during our review.