

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 the 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 The Peninsula Bank, Ishpeming, Michigan, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of May 20, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Outstanding."

Several factors support the bank's outstanding rating. First, the bank has consistently maintained a high loan-to-deposit ratio since the previous evaluation. Second, the bank lends to borrowers of many different income levels and to small businesses and farms. Third, the bank made a substantial portion of its loans within its assessment area.

The following table indicates the performance level of The Peninsula Bank, Ishpeming, Michigan, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The Peninsula Bank, Ishpeming, Michigan PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of the communities in its assessment area effectively. At the previous evaluation, the bank was rated satisfactory in helping to meet the credit needs of its community. According to the bank's March 31, 1996, Report of Condition ("ROC"), its total assets are \$57,549 million. The bank's volume of loans and deposits have remained stable since the previous evaluation. The bank's loan portfolio consists of 61% real estate (47% residential real estate and 14% commercial real estate loans), 26% consumer, 12% commercial, and 1% agricultural loans. An analysis of the ROCs for the quarters since the previous evaluation reveals little change in the loan mix.

The bank's main office is in downtown Ishpeming, Michigan. The bank has two branches, both located in commercial areas of Ishpeming on U.S. Highway 41. Chartered in 1887, the bank has not opened or closed any offices since the previous evaluation. The bank's facilities allow it to provide its products and services to its entire assessment area.

The bank offers a full array of products and services to meet the consumer and commercial needs of the area. The bank also offers a variety of real estate, commercial, consumer, and agricultural loans. The bank's credit products and services are appropriate for a small, rural community.

DESCRIPTION OF THE ASSESSMENT AREA

The bank defines its assessment area as Marquette County, Michigan, excluding the city of Marquette, which is located in the Upper Peninsula. The bank's main office is located in Ishpeming, which is in the center of the county and 12 miles west of the city of Marquette. According to the 1990 census, the assessment area's population is 48,472.

CRA divides income levels for borrowers into four categories: low income, moderate income, middle income, and upper income. Marquette County, while not a metropolitan statistical area ("MSA"), is divided into census tracts, which are similar to the block numbering areas ("BNA") normally used for dividing nonmetropolitan areas. Because the bank's assessment area is not in an MSA, the categorization of a borrower or census tract's income is determined relative to the statewide nonmetropolitan median family income. Low-income borrowers have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income borrowers have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income borrower as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An borrower with an income that is at least 120% or more of the statewide nonmetropolitan media family income is considered upper income. Census tracts and BNAs are classified using similar categories based on the level of the median family income in the geography.

The bank's assessment area is divided into 16 census tracts: one is moderate income (24.00), ten are middle income (13.00, 14.00, 17.00, 18.00, 19.00, 20.00, 22.00, 23.00, 25.00, 26.00), and five are upper income (11.00, 12.00, 15.00, 16.00, 21.00). Census tract 24.00, the K. I. Sawyer Air Force Base, is defined as moderate income. However, the base was closed in 1995 and there are no residents in the tract. According to the 1990 census data, the assessment area's median family income is \$29,226, while the median family income for nonmetropolitan areas in Michigan is \$27,894. Of the 17,287 households in the assessment area, approximately 20% are low income, 16% are moderate income, 19% are middle income, and 45% are upper income. Approximately 12% of the households have incomes below the poverty level.

The economy of the bank's assessment area is primarily based on the natural resource extraction of ores and timber. According to the 1995 Economic Profile of Marquette County, published by the Michigan Jobs Commission, 33,514 people in Marquette County are in the labor force; the unemployment rate is approximately 7.2%. Major employers in the county are two mining companies that collectively employ more than 2,000 people, a hospital that employs more than 2,000 people, and a university that employs more than 1,100 people.

During the evaluation, examiners contacted members of the community who are familiar with economic conditions in the assessment area. One contact indicated that continued diversification, particularly of technology and light manufacturing, was needed. None of the individuals contacted indicated that they were aware of any unmet credit needs in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done an excellent job in meeting the credit needs of the residents of its assessment area. The criteria detailed below were used in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's lending levels exceed the standards for satisfactory performance. According to the bank's March 31, 1996, ROC, the bank's net loan-to-deposit ratio was 80.9%. Since March 31, 1995, the quarterly average of the bank's net loan-to-deposit ratio has been 81.5%. The following table, based on quarterly ROC data, shows that the bank's loan-to-deposit ratio has been consistently high since the previous evaluation.

Date	Net Loans (in thousands)	Deposits (in thousands)	Loan-to-Deposit Ratio
March 31, 1996	\$39,998	\$49,422	80.9%
December 31, 1995	\$40,618	\$48,276	84.1%
September 30, 1995	\$40,614	\$48,940	83.0%
June 31, 1995	\$39,795	\$48,762	81.6%
March 31, 1995	\$38,630	\$49,503	78.0%

The following table shows the total assets and the average quarterly loan-to-deposit ratios, as of March 31, 1996, for the subject bank and another bank located near Ishpeming ("Bank A").

Bank	Total Assets March 31, 1996	Quarterly Average Loan-to-Deposit Ratio
Subject Bank	\$57,549	81.5%
Bank A	\$67,259	62.4%

Comparisons with other financial institutions having offices in the assessment area are not possible because they are branches of larger institutions, and as such, loan-to-deposit ratio information is not available for them.

As previously mentioned, community contacts did not indicate there were any unmet credit needs in the community.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of a statistical sample of loans originated by the bank since the previous evaluation reveals that a substantial majority of its loans were made inside its assessment area. The table below shows the percentages for the number and dollar volume of major loan products originated inside the bank's assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans
Commercial/Agriculture	91	71
Consumer	87	84
Residential Real Estate	98	99

This assessment area's loan concentration level exceeds the standards for satisfactory performance. As noted in the table, most of the bank's loans are within the assessment area.

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

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

A review of the distribution of loans to borrowers of different income levels shows that the bank actively provides loans to borrowers of all income levels and exceeds the standard for satisfactory performance. The income level of consumer and residential real estate borrowers is compared to the median family income for a family residing outside a Michigan MSA. The bank's distribution of loans by income level is shown in the following table.

DISTRIBUTION OF LOANS BY INCOME LEVEL IN THE ASSESSMENT AREA				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
<u>Consumer</u>				
Total Number of Loans	38%	32%	17%	13%
Total Amount of Loans	28%	33%	22%	18%
<u>Residential Real Estate</u>				
Total Number of Loans	5%	13%	27%	55%
Total Amount of Loans	3%	8%	25%	64%

*Income level is based on the 1995 Michigan nonmetropolitan median family income of \$32,600.

Data in the table shows that the bank made 70% of its consumer loans to low- and moderate-income borrowers. As noted, 20% of the area's households are classified as low income and 16% are classified as moderate income. These figures indicate that the bank's lending to low- and moderate-income borrowers substantially exceeds the number of these individuals living in the assessment area. The table also shows that the number of residential real estate loans to low- and moderate-income borrowers totaled 18%. Given the income of low- and moderate-income borrowers, the level of residential lending to them is reasonable. Overall, the bank's consumer and residential real estate lending to low- and moderate-income borrowers exceeds the standards for satisfactory performance.

The size and volume of commercial loans also appear reasonable for the bank. All the commercial loans in the sample were made to borrowers with less than \$1 million in gross annual revenues and all were for amounts less than or equal to \$100,000. The bank's level of lending to low- and moderate-income borrowers and small businesses exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

The bank's loans are distributed throughout the assessment area in a reasonable manner. As such, the geographic distribution of the bank's loans meets the standards of satisfactory performance. As previously mentioned, the bank's assessment area includes one moderate-income census tract, the former K. I. Sawyer Air Force Base, which was closed after the 1990 census. No people reside in the tract.

The following table illustrates the bank's loan distribution in the middle- and upper-income areas.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA GEOGRAPHIES		
Type of Loan	Middle-Income Tracts	Upper-Income Tracts
<u>Residential Real Estate</u>		
Percentage of Total Loans	69	31
Percentage of Total Loan Amounts	58	42
<u>Consumer Loans</u>		
Percentage of Total Loans	74	26
Percentage of Total Loan Amounts	71	29
<u>Small Business Loans</u>		
Percentage of Total Loans	69	31
Percentage of Total Loan Amounts	66	34

General

The evaluation did not reveal any violations of the substantive provisions of the fair lending laws and regulations. There were three minor technical violations of the Equal Credit Opportunity Act's Regulation B. Furthermore, the bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

May 20, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Peninsula Bank
Name of Depository Institution

092622800000
Identification Number of Institution

Ishpeming, Michigan
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

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.