

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 of Ishpeming, Ishpeming, Michigan, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of April 13, 1998. 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 “Satisfactory.”

Several factors support rating the bank’s CRA performance as satisfactory. First, the bank actively lends to borrowers of different income levels. Second, the bank’s distribution of loans throughout its assessment area is reasonable. Third, the bank’s net loan-to-deposit ratio is consistently high, indicating the bank actively extends loans. Finally, the bank extends a significant majority of its loans in the assessment area.

DESCRIPTION OF INSTITUTION

Given 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 outstanding in helping to meet the credit needs of its assessment area. The bank's main office is a full-service facility located in downtown Ishpeming. In addition to the main office, the bank operates the PenWest and PenNorth branches in Ishpeming and the Negaunee branch in Negaunee, Michigan. The main office lobby hours are 9:00 a.m. to 4:00 p.m. Monday, Tuesday, Wednesday, and Friday; 9:00 a.m. to 6:00 p.m. Thursday; and 9:00 a.m. to noon Saturday. The main office's drive-up facility is open 8:30 a.m. to 5:00 p.m. Monday, Tuesday, Wednesday, and Friday; 8:30 a.m. to 6:00 p.m. Thursday; and 8:30 a.m. to noon Saturday. The PenWest branch is a full-service facility located on Highway 41. With the exception of closing its lobby at 5:00 p.m. Monday, Tuesday, Wednesday, and Friday, the PenWest branch and drive-up facility are open the same hours as the main office. The PenNorth branch is a full-service facility located in a Jubilee Foods store. The PenNorth office is open 10:00 a.m. to 7:00 p.m. Monday through Friday and 10:00 a.m. to 3:00 p.m. on Saturday. The Negaunee branch, also a full-service facility located in another Jubilee Foods store, opened since the last evaluation in September 1997. The Negaunee branch has the same hours as the PenNorth branch.

The bank operates three cash-dispensing automated teller machines ("ATM"). The bank has ATMs at each branch office. The bank opened the ATMs at the PenWest and Negaunee branches since the last evaluation. All three ATMs are accessible 24 hours a day. Since the last evaluation, the bank has added the Info-line, which allows 24-hour access to checking and savings accounts, and a touch-tone bill paying service called Payline.

According to the December 31, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$59.3 million. Since the last evaluation, the bank's total assets have increased approximately \$2.5 million. Since June 30, 1996, net loans increased approximately \$1.7 million, or 4.4%. During that same period, deposits increased approximately \$2.0 million, or 4.2%. The bank's loan portfolio is composed of approximately 22.5% consumer, 51.9% consumer real estate, 22.3% commercial, .7% agricultural, and 2.6% other loans. The composition of the loan portfolio reflects the level of demand for specific credit products by the residents of the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of the residents and businesses within its assessment area. It extends open- and closed-end consumer, residential real estate, and commercial loans. These conventional loan products are appropriate for a small rural community.

DESCRIPTION OF THE PENINSULA BANK OF ISHPEMING'S ASSESSMENT AREA

The bank defines its assessment area as all of Marquette County, Michigan, excluding the city of Marquette, Michigan. The bank's offices are in Ishpeming and Negaunee, which are approximately in the center of the county and 10 to 12 miles west of the city of Marquette. Marquette County, while not a metropolitan statistical area ("MSA"), is divided into census tracts, which are similar to the block numbering areas normally used for subdividing nonmetropolitan areas.

CRA divides income into four categories: low, moderate, middle, and upper. 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 individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a

middle-income person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. Census tracts are classified using similar categories based on the level of the median family income in the geography. According to the updated 1997 census data, the statewide nonmetropolitan median family income is \$35,500; this figure is used to classify borrower incomes. The 1990 statewide nonmetropolitan median family income of \$27,894 is used to classify census tract income levels.

The bank's assessment area is defined as 16 census tracts: one is moderate income (24.00), 10 are middle income (13.00, 14.00, 17.00, 18.00, 19.00, 20.00, 22.00, 23.00, 25.00, and 26.00), and five are upper income (11.00, 12.00, 15.00, 16.00, and 21.00). There are no low-income census tracts in the assessment area. The bank's main office and the PenNorth branch are located in middle-income census tracts 19.00 and 18.00, respectively. The Negaunee and PenWest branches are located in upper-income census tracts 16.00 and 21.00, respectively. According to 1990 U.S. Census data, the assessment area's population is 48,472. The moderate-income tract (24.0) is the K.I. Sawyer Air Force Base, which closed in 1995. Due to the base closing, the 1990 census data relating to tract 24.0 does not reflect the current demographics of this area. According to bank management, very few individuals live at the former base. There are as many as 2,000 units that will be available to rent; however, at this time, it is estimated that only about 200 units are occupied.

As a percentage of statewide nonmetropolitan median family income, the middle-income tracts' median family incomes range from 87.8% to 117.2% and the upper-income tracts' median family incomes range from 124.1% to 134.8%.

According to 1990 census data, the assessment area's median family income is \$29,226 and the median household income is \$25,445. The median family and household incomes for nonmetropolitan areas in Michigan are \$27,894 and \$23,427, respectively. Of the 13,331 families in the assessment area, 16.4% are low income, 20.4% are moderate income, 22.5% are middle income, and 40.7% are upper income. Of the 17,287 households in the assessment area, 20.1% are low income, 16.1% are moderate income, 18.8% are middle income, and 44.9% are upper income. The assessment area has relatively fewer low-income families and households than the state's nonmetropolitan areas. Approximately 9.2% of the families and 11.9% of the households in the assessment area have incomes below the poverty level. The assessment area has relatively fewer families and households with incomes below the poverty level than the state's nonmetropolitan areas.

Examiners contacted a government official and a business and labor group representative familiar with community development, housing, and credit needs in the assessment area. Information obtained from these individuals and from bank management was used to evaluate the bank's CRA performance.

Mining is the predominant industry and the largest employer in the area. According to the U.S. Census Bureau's 1994 county business patterns data, the service and retail trade industries are the next largest employers. The local economy appears stable, and the supply and demand for housing appears balanced. The unemployment rate, based on 1994 U.S. Census data, is 7.2%. Bank management stated the current unemployment rate is approximately 7.0%. Mining activity is stable, and employment opportunities should remain steady with small growth expected.

According to 1990 census data, the assessment area has 22,625 housing units. Of these, approximately 53% are owner-occupied units, 23% are rental units, and the remaining 24% are vacant or boarded up. In the assessment area's moderate-income tract, only 5% of the housing units are owner occupied. The assessment area has more owner-occupied housing in the middle- and upper-income areas. In the middle-

and upper-income tracts, 53% and 71% of the housing units, respectively, are owner occupied. A community contact indicated there appears to be an adequate supply of housing. With an aging population, projections show a future need for assisted-living units. The community contact also noted that low-income people seem to prefer rental to owner-occupied housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. Much of the analysis on the following pages is based on a statistical sample of 87 residential real estate loans and 136 consumer loans originated in the six months preceding the evaluation. The criteria discussed below were reviewed in determining the bank's CRA rating. In assigning the overall rating, the greatest weight was placed on the bank's lending to borrowers of different income levels and in geographies of different income levels. These two factors most closely measure the bank's efforts to meet the credit needs of its community.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio exceeds the standards for satisfactory performance based on the ratio's consistently high level, the lack of any identified unmet credit needs in the assessment area, and the ratios of national peers and local competitors. Since the previous evaluation, the bank's quarterly average net loan-to-deposit ratio is 81.6%. The bank's quarterly average net loan-to-deposit ratio has increased only slightly since the last evaluation when it was 81.5%. According to the December 31, 1997, ROC, the bank's net loan-to-deposit ratio is 80.96%. The following chart, based on quarterly ROC data, shows the relative consistency of the bank's net loan-to-deposit ratio and upward trend of the bank's net loans.

DATE	DEPOSITS (In Thousands)	NET LOANS (In Thousands)	NET LOAN-TO- DEPOSIT RATIO
December 31, 1997	\$50,850	\$41,169	80.96%
September 30, 1997	\$50,684	\$40,989	80.87%
June 30, 1997	\$49,842	\$40,350	80.96%
March 31, 1997	\$49,086	\$40,339	82.18%
December 31, 1996	\$49,367	\$40,339	81.71%
September 30, 1996	\$48,109	\$40,169	83.50%
June 30, 1996	\$48,808	\$39,423	80.77%

According to the December 31, 1997, Uniform Bank Performance Report ("UBPR"), the bank's 80.96% net loan-to-deposit ratio exceeds the bank's national peer group average of 72.63% and ranks in the 75th percentile. The bank has also sold several residential real estate loans on the secondary market. These loans are not included in the net loan-to-deposit ratio. In addition, the December 31, 1997, UBPR shows the bank's net loans-to-assets ratio of 69.46% is higher than similarly sized banks operating in Michigan and exceeds the average net loans-to-assets ratio of 67.91% for all insured commercial banks in Michigan. The following table shows the total assets and the average quarterly net loan-to-deposit ratios as of December 31, 1997, for the bank and its local competitor.

BANK	TOTAL ASSETS (DECEMBER 31, 1997) (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
The Peninsula Bank of Ishpeming Ishpeming, Michigan	\$59,273	81.56%
The First National Bank of Negaunee Negaunee, Michigan	\$70,565	63.08%

Additional comparisons with other financial institutions having offices in the assessment area are not possible, as they are branches of larger institutions. Net loan-to-deposit ratio information is not available at the branch level. Despite strong competition in the local market, the bank has been able to offer credit products tailored to the needs of its customers and attract deposits to maintain the bank's desired ratios. Information received from community contacts did not reveal any unmet credit needs in the assessment area.

Based on the strong competition for loans, the bank's consistently high net loan-to-deposit ratio, national peer group and competitor net loan-to-deposit ratios, and the lack of any identified unmet credit needs, the bank's quarterly average net loan-to-deposit ratio exceeds the standards for satisfactory performance in this category.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of the statistical sample of the loans originated by the bank in the six months preceding the evaluation reveals that the bank extended a significant majority of its loans in the assessment area. The following table illustrates the percentages of loans within the assessment area based on total number and loan amount in two major loan categories.

LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	94%	95%
Residential Real Estate	97%	89%

As the table shows, the bank extends almost all of its consumer and residential real estate loans within the assessment area. At the last evaluation, the bank extended 87% of its consumer and 98% of its residential real estate loans in the assessment area. Thus, the bank has extended relatively more consumer and fewer residential real estate loans in the assessment area since the last evaluation. Based on the high concentration of lending within the assessment area, the bank exceeds the standards for satisfactory performance in this category.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to borrowers of different income levels is reasonable and meets the standards for satisfactory performance. The following table shows the percentages of consumer and residential real estate loans to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
<u>Consumer</u>				
Total number of loans	34%	34%	20%	12%
Total amount of loans	30%	24%	28%	18%
<u>Residential Real Estate</u>				
Total number of loans	2%	22%	31%	45%
Total amount of loans	2%	15%	28%	55%
*Income level is based on the 1997 Michigan nonmetropolitan median family income of \$35,500.				

The data in the table indicate that the bank originated a significant majority, 68%, of its consumer loans to low- and moderate-income borrowers. Also significant is the fact that these borrowers received 54% of the dollar amount of consumer loans extended during the six months preceding the evaluation. In addition, the bank extended 24% of its residential real estate loans to low- and moderate-income borrowers. As previously mentioned in the Description of the Assessment Area section, approximately 36% of the households in the assessment area are classified as low and moderate income according to the 1990 census figures. The comparable figure for families is 37%.

The bank's overall level of consumer lending to low- and moderate-income borrowers is similar to that noted at the previous evaluation and exceeds expectations given the assessment area's demographics. To service the credit needs of consumer borrowers, the bank originates small dollar amount loans. The bank's residential real estate lending to low- and moderate-income borrowers has increased from 18% to 24% since the last evaluation. The small number of loans to low-income borrowers is reasonable and reflects the fact that most of the assessment area's low-income persons reportedly prefer rental housing. Moreover, low-income borrowers have incomes below \$17,750, which limits the size of the loan for which such a borrower could qualify. With median rents of \$324, homeownership may not be an attractive alternative to low-income borrowers. Community contacts indicated that there are no unmet credit needs. The fact that the bank has originated a high number and dollar amount of consumer loans to low- and moderate-income borrowers demonstrates a strong commitment to meeting the credit needs of all segments of the community. Thus, the bank's performance meets this category's standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout its assessment area is reasonable. Of the 16 census tracts in the assessment area, 1 is a moderate-income area, 10 are middle-income areas, and 5 are upper-income areas. There are no low-income census tracts in the assessment area. Thus, the distribution of the census tracts is 6% moderate income, 62% middle income, and 30% upper income. The bank extended loans in 80% of the assessment area's middle- and upper-income census tracts. Those areas where the bank extended no loans are census tracts 14.00, 26.00, and 11.00. Residents of these areas are not proximate to the bank's offices and branches and probably do not bank in Ishpeming or Negaunee.

As previously mentioned, the bank's assessment area includes one moderate-income tract. This tract (24.00) is the K.I. Sawyer Air Force Base, which closed in 1995. The 1990 census data relating to tract 24.00 do not reflect of the area's current demographics; therefore, the data is not considered for this section of the evaluation. Bank management indicated there are very few people living at the former base

where a credit union is available to service residents' banking needs. The bank did not originate any loans in the moderate-income tract during the sample period. This appears reasonable given the minimal number of people living in the moderate-income area and the proximity of this area to another financial institution.

The following table shows the distribution of loans by census tract income level.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA*		
BY CENSUS TRACT INCOME LEVEL		
Loan Type	Middle-Income Tracts	Upper-Income Tracts
<u>Consumer</u>		
Total Number of Loans	88%	12%
Total Amount of Loans	89%	11%
<u>Residential Real Estate</u>		
Total Number of Loans	70%	30%
Total Amount of Loans	63%	37%
*The assessment area has no low-income tracts, and moderate-income tract 24.00 is not included in this table.		

A tract-by-tract analysis reveals that the bank's loans are reasonably distributed throughout the middle- and upper-income census tracts. The distribution of consumer and residential real estate loans shows that the bank's lending is concentrated in the middle-income census tracts. Only three of the five upper-income tracts (15.0, 16.0, and 21.0) are in close proximity to the bank offices. These areas have a population of 7,817. The remaining tracts in the immediate areas of the bank's offices are middle-income tracts (13.0, 17.0, 18.0, 19.0, 20.0, and 22.0) having a population of 16,154. Considering the fact that these middle-income tracts have more than twice the number of residents than upper-income census tracts 15.0, 16.0, and 21.0 and that 62% of the assessment area's census tracts are middle income, the dispersion of the bank's lending activity throughout the assessment area appears reasonable.

Based on the distribution of the bank's loans throughout the assessment area, the lack of any identified unmet credit needs, and the assessment area's demographics, the bank meets the standards for satisfactory performance in this category.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair lending and fair housing laws and regulations. In addition, the bank has not received any CRA-related complaints since the last evaluation.

PUBLIC DISCLOSURE

April 13, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Peninsula Bank of Ishpeming
Name of Depository Institution

092622800000
Identification Number of Institution

Ishpeming, Michigan
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

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.