

PUBLIC DISCLOSURE

September 13, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Peninsula Bank of Ishpeming
100 South Main
Ishpeming, Michigan 49849
RSSD 258351

**Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

Institution’s CRA Rating 1

Scope of Evaluation 1

Description of Institution 2

Description of Assessment Area 3

Conclusions with Respect to Performance Criteria 5

Fair Lending or Other Illegal Credit Practices Review..... 10

Appendix A..... 11

Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.

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

The Peninsula Bank of Ishpeming's (PenBank) performance under the Community Reinvestment Act (CRA) is satisfactory. The bank's CRA performance was evaluated using the Interagency Small Bank CRA Evaluation Procedures. Relative to its asset size and financial condition, the bank effectively meets the credit needs of the residents and small businesses in its assessment area. Several factors support the bank's satisfactory rating:

- The bank's lending to borrowers of different income levels and to businesses of different sizes is very good.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area, with no unexplained gaps in lending.
- The bank originated the great majority of its loans within its assessment area.
- The bank's net loan-to-deposit ratio reflects an active level of lending.

SCOPE OF EVALUATION

The evaluation of the bank's CRA performance is based in part on information provided by bank management and community contacts. Information from these sources as well as economic and demographic characteristics of the assessment area, competitive factors, and the size and financial condition of the bank were analyzed to understand the bank's performance.

The following criteria were reviewed to determine the bank's CRA rating:

- Lending to businesses of different sizes and to borrowers of different income levels,
- Geographic distribution of loans,
- Lending inside the assessment area,
- Net loan-to-deposit ratio, and
- Record of responding to complaints.

The scope of the evaluation also includes a review of loans based on the bank's major product lines. Table 1 illustrates the bank's lending activity from January 1 through December 30, 2009.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>% of Total Number</i>	<i>Total Dollar Amount of Loans</i>	<i>% of Total Dollar Amount of Loans</i>
Consumer	597	38.5	3,984,578	4.4
Home Equity Lines of Credit	76	4.9	2,353,217	2.6
Residential Real Estate	664	42.8	63,407,609	70.5
Commercial	212	13.7	20,054,456	22.3
Other	2	0.1	119,222	0.1
Total	1,551	100.0	89,919,082	100.0

¹Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total exactly 100.0%.

Based on the total number and total amount of loans for each category, a statistical sample of small business loans, residential real estate loans, and consumer loans was selected for review. The sample includes 55 small business loans, 82 residential real estate loans, and 115 consumer loans originated during the six-month period between February 1, 2010, and July 31, 2010.

In assigning the overall CRA rating, small business lending, residential real estate lending, and consumer lending activity received equal weight. Residential real estate loans, followed closely by consumer loans, represent the largest number of originations. Commercial loans represent the largest portion of the bank's portfolio and also represent the second largest portion of dollars lent, behind residential real estate loans.

For purposes of the evaluation, two performance criteria, the distribution of loans to borrowers of different incomes and businesses of different sizes as well as the geographic distribution of loans, received greater weight. The remaining criteria were weighted equally.

DESCRIPTION OF INSTITUTION

The bank effectively meets the community credit needs in its assessment area given its office locations, size, and products. The evaluation did not reveal any financial constraints on the bank's ability to lend within the assessment area. The bank received a satisfactory rating at its previous CRA performance evaluation, dated July 10, 2006.

Offices and retail delivery systems. PenBank is a full-service financial institution with its main office in Ishpeming, Michigan, and two full-service branch offices, one in Ishpeming and one in Marquette. The bank also has three limited-service branches; two are in grocery stores in Ishpeming and Negaunee, while the third is in the Marquette Medical Center. The bank did not open or close any offices during the evaluation period. The bank has cash-dispensing-only automated teller machines (ATM) at each of the six offices, and all but two operate drive-up facilities. All of the bank's offices and ATMs are in middle-income census tracts. Table 2 shows the bank's locations and hours.

<i>Address</i>	<i>Lobby</i>	<i>Drive-up</i>
Main 100 South Main Street Ishpeming, MI 49849	Monday-Wednesday 9:00 a.m.-4:00 p.m. Thursday 9:00 a.m.-6:00 p.m. Friday 9:00 a.m.-4:00 p.m. Saturday 9:00 a.m.-12:00 p.m.	Monday-Wednesday 8:30 a.m.-5:00 p.m. Thursday 8:30 a.m.-6:00 p.m. Friday 8:30 a.m.-5:00 p.m. Saturday 8:30 a.m.-12:00 p.m.
PenWest 170 North Daisy Street Ishpeming, MI 49849	Monday-Wednesday 9:00 a.m.-5:00 p.m. Thursday 9:00 a.m.-6:00 p.m. Friday 9:00 a.m.-5:00 p.m. Saturday 9:00 a.m.-12:00 p.m.	Monday-Wednesday 8:00 a.m.-5:00 p.m. Thursday 8:00 a.m.-6:00 p.m. Friday 8:00 a.m.-5:00 p.m. Saturday 8:00 a.m.-12:00 p.m.
PenNorth 900 U.S. 41 West Ishpeming, MI 48949	Monday-Friday 10:00 a.m.-7:00 p.m. Saturday 10:00 a.m.-3:00 p.m.	Not applicable
Negaunee 440 U.S. 41 East Negaunee, MI 49866	Monday-Friday 10:00 a.m.-6:00 p.m. Saturday 10:00 a.m.-2:00 p.m.	Monday-Friday 9:00 a.m.-7:00 p.m. Saturday 9:00 a.m.-3:00 p.m.
Marquette 102 North Front Street Marquette, MI 49855	Monday-Friday 9:00 a.m.-5:00 p.m. Saturday 9:00 a.m.-12:00 p.m.	Monday-Friday 8:30 a.m.-5:00 p.m. Saturday 8:30 a.m.-12:00 p.m.

TABLE 2
PenBank Office Locations and Business Hours

<i>Address</i>	<i>Lobby</i>	<i>Drive-up</i>
Marquette Medical Center 141 West Fair Avenue, Suite #125 Marquette, MI 49855	Monday-Friday 9:00 a.m.-3:30 p.m.	Not applicable

The bank's web site, www.penbank.com, provides customers the ability to transfer funds between accounts, make loan payments, and review account information. Customers can also enroll in the bank's online bill payment service. In addition, the bank offers 24-hour telephone banking that allows customers to check account balances, transfer funds, and verify other account activity. Overall, the bank's services are accessible throughout the assessment area.

Loan portfolio. According to the June 30, 2010, Report of Condition (ROC), the bank's assets are \$135.5 million and total loans are \$106.2 million. The ROC data show that commercial loans account for the largest portion of the bank's loan portfolio. The loan portfolio consists of 58.2% commercial, 34.9% residential real estate, 5.8% consumer, and 1.1% other loans. Since the previous evaluation, the bank's gross loan portfolio increased by 13.9%, while total assets increased by 14.1%.

Credit products. PenBank offers a wide variety of consumer, residential real estate, and commercial loan products to fulfill the credit needs of the residents and businesses in its assessment area. The bank provides financing for consumer and commercial borrowers through various open- and closed-end loan products. In addition to conventional loan products, PenBank offers loans guaranteed by the Small Business Administration.

Deposit market share. According to the June 30, 2010, Federal Deposit Insurance Corporation Deposit Market Share Report, PenBank's deposits total \$112.6 million, representing approximately 13.5% of deposits in Marquette County. The bank ranks third in market share, behind two national banks.

DESCRIPTION OF ASSESSMENT AREA

Assessment area. PenBank has defined Marquette County, Michigan, as its assessment area for purposes of CRA. The assessment area is unchanged since the previous evaluation and includes 26 census tracts: four moderate-income, 18 middle-income, and four upper-income census tracts; the assessment area does not include any low-income census tracts. Table 3 contains demographic information about the bank's assessment area based on 2000 U.S. Census data and 2010 Dun & Bradstreet data.

TABLE 3
Assessment Area Demographics

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0.0	0	0.0	0	0.0	2,603	15.8
Moderate Income	4	15.4	1,547	9.4	222	14.4	3,261	19.8
Middle Income	18	69.2	12,960	78.7	737	5.7	3,710	22.5
Upper Income	4	15.4	1,956	11.9	37	1.9	6,889	41.8
Total Assessment Area	26	100.0	16,463	100.0	996	6.0	16,463	100.0

TABLE 3
Assessment Area Demographics

<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>		<i>Rental</i>		<i>Vacant</i>		
		<i>#</i>	<i>%</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	5,267	1,326	7.4	25.2	1,425	27.1	2,516	47.8
Middle Income	24,293	14,277	79.4	58.8	5,970	24.6	4,046	16.7
Upper Income	3,317	2,387	13.3	72.0	382	11.5	548	16.5
Total Assessment Area	32,877	17,990	100.0	54.7	7,777	23.7	7,110	21.6
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
	<i>#</i>	<i>%</i>	<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
			<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	226	8.8	197	8.6	16	9.5	13	12.0
Middle Income	2,038	79.7	1,821	79.8	136	81.0	81	75.0
Upper Income	293	11.5	263	11.5	16	9.5	14	13.0
Total Assessment Area	2,557	100.0	2,281	100.0	168	100.0	108	100.0
Percentage of Total Businesses:				89.2		6.6		4.2
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
	<i>#</i>	<i>%</i>	<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
			<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	6	15.0	6	15.4	0	0.0	0	0.0
Middle Income	31	77.5	30	76.9	1	100.0	0	0.0
Upper Income	3	7.5	3	7.7	0	0.0	0	0.0
Total Assessment Area	40	100.0	39	100.0	1	100.0	0	0.0
Percentage of Total Farms:				97.5		2.5		0.0

Income. For purposes of classifying borrower incomes, this evaluation uses the HUD estimated median family income for the relevant area. For borrowers in the nonmetropolitan areas of Michigan, the figure is \$51,800 for 2010. For purposes of classifying census tract income levels, this evaluation uses the 2000 median family income of \$44,067 for the nonmetropolitan areas of Michigan.

Population. In 2000, the population of the bank's assessment area was 64,634 according to 2000 U.S. Census data. According to the U.S. Census 2006-2008 American Community Survey, the population of Marquette County increased to 65,350. Significant towns and cities in the assessment area include Ishpeming, Negaunee, and Marquette. Ishpeming and Negaunee are small communities west of Marquette. Ishpeming and Negaunee have populations of 6,686 and 4,576, respectively, according to the census, while Marquette has a population of 19,661.

General economic conditions. Based on information from community contacts and bank management, the assessment area has been affected by the recession in recent years but has done relatively well in comparison to many parts of the state of Michigan. The economy was strong but slowed in 2008 and 2009; however, according to community contacts, 2010 has been better. Bank management noted that

small businesses and residents were somewhat fiscally conservative during the latter part of the evaluation period due to uncertainty about the direction of the economy.

The economy in the assessment area depends largely on the university system, health care, and iron ore mining, all of which have been relatively stable. Marquette is home to Northern Michigan University, which is a major employer in the assessment area. The other major employers are local health care providers, a mining and natural resources company, and local and county government (including local school districts). During the evaluation period, the mining industry saw some layoffs; however, many of the positions have since been reinstated. The area also has a forest and timber industry as well as some tourism. Marquette is a regional retail center for the Upper Peninsula and therefore has a number of retail jobs.

According to community contacts, some small businesses closed in Ishpeming and Marquette. Bank management indicated it is a difficult economy for businesses in Ishpeming and for development in Marquette.

According to bank management and community contacts, some affordable housing is available in the assessment area. Housing in Ishpeming and Negaunee is less expensive than in Marquette by about 10% to 20%, and some starter homes are available for \$50,000 to \$70,000; in Marquette, it is hard to find a home for less than \$100,000. According to the community contacts, many second homes and rentals are located in the assessment area.

According to bank management, the assessment area had some new housing and commercial development early in the evaluation period, but activity slowed significantly in 2008. The majority of the commercial development took place in Marquette.

The bank operates in a competitive environment. It competes with regional and national banks as well as credit unions in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

The bank's lending to borrowers of different income levels and to businesses of different sizes is very good.

Small business lending. The bank's small business lending is very good. The bank's small business lending is shown in Table 4.

<i>Small Business Loans</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$1,000,000$	<i>Total Originations</i>
Percentage of Small Business Loans	78.2%	16.4%	5.5%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	77.1%	18.8%	4.2%	87.3%

Overall, the bank originated 87.3% of its small business loans to businesses with gross annual revenues of \$1 million or less. According to 2010 Dun & Bradstreet data, 89.2% of the businesses in the assessment area are small businesses. Thus, the bank’s lending to small businesses compares well to demographics. As mentioned, the small businesses in the bank’s assessment area faced some challenges due to economic conditions and were somewhat fiscally conservative during the evaluation period.

The bank originates most of its small business loans in small-dollar amounts. The bank originated 95.8% of its loans to small businesses for amounts of \$250,000 or less. Overall, the bank’s small business lending is very good.

Consumer lending. The bank’s consumer lending to borrowers of different income levels is very good. Table 5 shows the bank’s consumer lending.

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	%	#	%	#	%	#	%	#	%
Consumer Loans	40	35.7	22	19.6	30	26.8	19	17.0	1	0.9
Residential Real Estate Loans	10	12.8	13	16.7	17	21.8	38	48.7	0	0.0
Percentage of Families by Income Levels*	15.8%		19.8%		22.5%		41.8%		NA	
Percentage of Households by Income Levels*	23.6%		17.9%		18.9%		39.6%		NA	

*Based on 2010 median family income for the nonmetropolitan areas of Michigan.

The bank originated 58.4% of its consumer loans to low- and moderate-income borrowers. The bank’s lending is high given the assessment area’s demographic data, which indicate that 41.5% of the households in the assessment area have low and moderate incomes. The bank offers a variety of consumer loan products and accommodates requests for small-dollar loans, which helps the bank serve the credit needs of low- and moderate-income borrowers. The bank’s loan distribution compares favorably to the assessment area demographics; the bank’s consumer lending is very good.

Residential real estate loans. The distribution of the bank’s residential real estate loans by borrower income is good. Table 5 includes the bank’s residential real estate lending.

The bank extended 29.5% of its residential real estate loans to low- and moderate-income borrowers. This level of lending is slightly lower than the demographic data, which indicate 35.6% of families have low and moderate incomes within the assessment area. As community contacts explained, although some affordable housing is available in the assessment area, much of the housing stock is priced too high for low- and moderate-income borrowers. According to bank management, the demand for residential real estate loans declined somewhat since the onset of the recession. Given the assessment area’s characteristics, the bank’s residential real estate lending to low- and moderate-income borrowers is good.

Overall, the bank’s lending reflects a very good distribution among individuals of different income levels and businesses of different sizes in its assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

PenBank extends loans throughout its assessment area, and the distribution of loans among census tracts of different income levels is reasonable. The bank originated small business, consumer, and residential

real estate loans in most of the census tracts in the assessment area, including the moderate-income census tracts, with no unexplained gaps in lending. The bank did not make any loans in two census tracts, middle-income tract 25.00 and upper-income tract 10.00; however, this is reasonable given the demographic data and assessment area characteristics. According to demographic data, census tract 10.00 only has 11 small businesses and five families, resulting in limited lending opportunities. Census tract 25.00 includes the town of Gwinn, with offices of three other financial institutions. As mentioned, the bank's assessment area does not include any low-income census tracts. Community contacts and bank management did not identify any concentrations of low- or moderate-income individuals within the assessment area.

Small business lending. The geographic distribution of small business loans is reasonable. Small business lending is shown in Table 6.

<i>Loan Type Sample</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Small Business	3.6%	3.3%	87.3%	85.2%	9.1%	11.5%
Consumer	13.4%	13.8%	80.4%	79.9%	6.3%	6.4%
Residential Real Estate	11.5%	10.9%	73.1%	62.9%	15.4%	26.2%
<i>Demographic Data</i>						
Number of Census Tracts	4		18		4	
Percentage of Census Tracts	15.4%		69.2%		15.4%	
Percentage of Households	10.7%		78.7%		10.6%	
Percentage of Families	9.4%		78.7%		11.9%	
Percentage of Small Businesses	8.8%		79.7%		11.5%	
*Income classification of census tracts is based on 2000 median family income.						

The bank extended 3.6% of small business loans in the moderate-income census tracts. According to Dun & Bradstreet, 8.8% of the assessment area's small businesses are in the moderate-income tracts. Although the bank's lending in the moderate-income census tracts is below demographic data, its performance is nonetheless reasonable.

The bank did not make small business loans in nine census tracts in the assessment area. One census tract is moderate income and the remaining tracts are middle and upper income. The bank's ability to lend in these census tracts is largely constrained by competitive factors. Also, two of the tracts have very few small businesses. Given this context and the demographic data, the bank's distribution and dispersion of small business loans in the assessment area is reasonable. Management explained that competition for small business loans is strong and credit demand is lower since the recession. The moderate-income census tracts include the university and the for air force base with limited leading opportunities for the bank.

Consumer lending. The bank's geographic distribution of consumer loans throughout the assessment area is reasonable; consumer lending is shown in Table 6.

The bank originated 13.4% of consumer loans in the moderate-income census tracts. This compares well with the demographic data, which indicate that 10.7 % of the assessment area's households live in the moderate-income census tracts.

The bank did not make consumer loans in seven census tracts in the assessment area, including one moderate-income census tract. Competitive factors strongly affect the bank's ability to lend to consumers in these census tracts. Also, some of the census tracts have few households. Given these factors, the bank's distribution and dispersion of consumer loans within the assessment area is reasonable.

Residential real estate lending. The geographic distribution of the bank's residential real estate loans throughout the assessment area is reasonable. As shown in Table 6, the bank originated 11.5% of residential real estate loans in moderate-income tracts. In the assessment area, 9.4% of families reside in the moderate-income census tracts, and only 7.4% of the assessment area's owner-occupied units are located in these tracts. The bank's residential real estate lending in the moderate-income census tracts compares favorably with the demographic data.

The bank did not originate residential real estate loans in ten census tracts in the assessment area; however, this is reasonable. One census tract is a moderate-income area, and the remainder of these census tracts are middle and upper income. The bank competes for lending opportunities in these census tracts with numerous other financial institutions. In addition, census tract 10.00 has only five owner-occupied units, while census tract 24.00 has no owner-occupied units according to 2000 census data; therefore, the opportunity to make residential real estate loans in these two census tracts is very limited. Finally, several of these census tracts contain more than 50% rental housing. Given the assessment area's characteristics, the distribution and dispersion of the bank's residential real estate loans is reasonable.

Overall, the geographic distribution and dispersion of the bank's loans is reasonable. The bank originates loans throughout the assessment area, and there are no unexplained gaps in the bank's lending.

LOAN-TO-DEPOSIT RATIO ANALYSIS

PenBank's net loan-to-deposit ratio reflects an active level of lending given the bank's asset size and financial condition as well as the assessment area's credit needs. The June 30, 2010, Uniform Bank Performance Report shows the bank's net loan-to-deposit ratio as 93.1%. The net loan-to-deposit ratio for the bank's national peer group is 77.1% for the same date.

Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio ranged from 90.6% to 99.6%. The bank's average net loan-to-deposit ratio for the 16 quarters since the previous evaluation is 95.6%, which is slightly higher than the 92% noted during the previous evaluation. The ratio is also higher than the national peer group average ratio of 79.9% for the past 16 quarters. The national peer group includes all insured commercial banks with assets between \$100 million and \$300 million with three or more full-service banking offices and not located in a metropolitan statistical area. The 16-quarter average net loan-to-deposit ratios for the bank and two commercial banks, one with offices in the bank's assessment area and one similarly sized bank outside of the bank's assessment area, are shown in Table 7.

<i>Bank Name and Location</i>	<i>Assets as of June 30, 2010 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
The Peninsula Bank Ishpeming, Michigan	\$135,452	95.6%
Range Bank, N.A. Negaunee, Michigan	\$254,461	80.5%
Peoples State Bank of Munising Munising, Michigan	\$114,367	87.6%

The bank's quarterly average net loan-to-deposit ratio exceeds that of the two banks listed in Table 7. The bank regularly extends loans in its competitive market. Several financial institutions, including credit unions, operate in the bank's assessment area and actively compete for lending opportunities. Net loan-to-deposit ratio data are not readily available for credit unions or the branches of regional or national banks.

Overall, the bank's net loan-to-deposit ratio is strong and indicates the bank's willingness to meet the credit needs of the assessment area. Community contacts did not identify any unmet credit needs in the assessment area.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

PenBank's concentration of lending in its assessment area is excellent. The bank originates the great majority of its loans to borrowers in its assessment area. Table 8 shows the number and percentage of loans the bank originated in the assessment area.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Consumer	112	97.4	719	96.8	3	2.6	24	3.2
Residential	78	95.1	5,575	95.1	4	4.9	288	4.9
Small Business	55	100.0	4,737	100.0	0	0.0	0	0.0
Total	245	97.2	11,031	97.3	7	2.8	312	2.7

Overall, the bank originated 97.2% of loans by volume and 97.3% by dollar amount to borrowers in its assessment area. The bank occasionally makes loans outside of its assessment area to maintain existing customer relationships. In addition, the bank occasionally makes loans to customers who live in neighboring Baraga County. Overall, the bank originates the great majority of its loans to borrowers in its assessment area for consumer, residential, and small business lending.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

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

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The evaluation did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B--Equal Credit Opportunity Act and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

Appendix A

Glossary of Common CRA Terms

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (the Agencies) have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on:
 - a. Rates of poverty, unemployment, and population loss or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help meet essential community needs, including the needs of low- and moderate-income individuals.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. It does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The 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 data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

Low-income: Individual income that is less than 50 percent of the area median income or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan to business: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

Small loan to farm: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)