PUBLIC DISCLOSURE

June 19, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Michigan Heritage Bank
RSSD# 2519001

28300 Orchard Lake Road, Suite 200
Farmington Hills, Michigan 48334

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, IL 60604-1413

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 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.

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INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution's performance is rated **satisfactory**.

Michigan Heritage Bank's loan-to-deposit ratio is more than reasonable, given the bank's size and the credit needs of the community. A majority of 2004 and 2005 HMDA-reportable loans and small business loans were originated in the bank's assessment area. The distribution of loans reflects reasonable penetration among borrowers of different income and revenue levels and loans are reasonably disbursed throughout the assessment area. Neither the institution nor this Reserve Bank received any CRA-related complaints during the scope of this evaluation. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Acts.

The institution was rated **satisfactory** under the CRA at its previous evaluation conducted on April 1, 2002.

SCOPE OF EXAMINATION

The evaluation included an analysis of the following:

- Quarterly loan-to-deposit ratios for years 2004, 2005 and 2006 for the bank, its national peer group and local competitors;
- 2004 and 2005 HMDA-reportable loans and;
- Commercial loans originated between January 1, 2005 and December 31, 2005.

Also considered were the economic conditions and the demographic composition of the assessment area.

DESCRIPTION OF INSTITUTION

Michigan Heritage Bank is a wholly-owned subsidiary of Michigan Heritage Bancorp, a one-bank holding company located in Farmington Hills, Michigan. The Bank operates five full-service banking offices in the cities of Farmington Hills, Novi, Troy, Livonia and Wixom, Michigan. All of the bank's branches are located in the northwest suburbs of Detroit, Michigan.

According to the Uniform Bank Performance Report, the bank had $172.1 million in total assets as of March 31, 2006. According to the Federal Deposit Insurance Corporation's (FDIC) Summary of Deposits, the bank had $141 million in deposits and 0.23 percent of the deposit market share in Oakland and Wayne Counties, Michigan as of June 30, 2005. The bank offers standard deposit products to both individuals and businesses. However, the bank discontinued offering its consumer loan products in March 2005 due to its small size, the difficulty in attracting customers and the inability to remain competitive for this business line in the Detroit marketplace. Since then, the Bank has continued to focus on its commercial loan products specializing in commercial construction and real estate loans as well as commercial leasing.

The bank's peer group includes all commercial banks with assets between $100 and $300 million, with 3 or more full service banking offices, and located in a metropolitan area. The bank's local competitors for loans and deposits include Paramount Bank, Farmington Hills; Oakland Commerce Bank, Farmington Hills; and Fidelity Bank, Birmingham, Michigan.

There are no apparent factors relating to the bank's financial condition, size, products offered, prior performance, legal impediments, or local economic conditions that would prevent the bank from meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

An institution's assessment area(s) will include the towns, counties, or other political subdivisions where its branches are located and a substantial portion of its loans are made. Assessment area(s) must consist of one or more geographies defined by block numbering areas (BNAs) or census tracts, which are statistical subdivisions of a county. Census tracts are primarily used in metropolitan areas, while BNAs are used in non-metropolitan areas. 2000 U.S. Bureau of Census data is used in this evaluation, unless stated otherwise.

The Bank's assessment area, shown in Appendix A, consists of Oakland and Wayne Counties which are located in the Warren-Farmington Hills-Troy, MI Metropolitan Division (MD) and the Detroit-Livonia-Dearborn, MI MD respectively. Both MDs are included in the Detroit-Warren-Livonia, MI Metropolitan Statistical Area (MSA). Though the geography of the assessment area has not changed since the previous performance evaluation, the designation of the geography within the assessment area changed when the Office of Management and Budget updated the Metropolitan Statistical Areas based on 2000 United States Census Data in OMB Bulletin 03-04 released in June 2003. This update divided the Detroit-Warren-Livonia MSA into two separate Metropolitan Divisions (MD). Though the bank's assessment area is contiguous, the inclusion of two MDs requires that the bank be evaluated separately for each MD. Therefore, this evaluation will assess the bank's performance in the Warren-Farmington Hills-Troy MD and the Detroit-Livonia-Dearborn MD separately.

Population Changes

The bank's assessment area has a population of 3,225,318. The overall population of the assessment area has grown only 1.8 percent since 1990 Throughout the 1990s residents continued to migrate from the city of Detroit and its immediate suburbs to adjacent counties. While Oakland County experienced a 10 percent population increase since 1990, Wayne County experienced a decrease in population of 2.4 percent. This can be explained by the stagnant economy and the overall job loss in the state over the last decade.

Income Characteristics

Exhibit 1 compares the income levels for the assessment area to Oakland County, Wayne County, the Warren-Farmington Hills-Troy MD, the Detroit-Livonia-Dearborn MD and the State of Michigan based on 2000 U.S. Bureau of Census data. In contrast to the 2000 data, the 2005 HUD adjusted median family incomes for the Warren-Farmington Hills-Troy MD and the Detroit-Livonia Dearborn MDs are $78,400 and $55,800 respectively.

Exhibit 1

Distribution of Families by Income Level						
Location	Median Family Income($)	Percent of Families				
		Low	Moderate	Middle	Upper	Below Poverty Level
Assessment Area	58,193	20.38	16.41	20.31	42.90	9.30
Oakland County	75,540	15.99	16.11	21.95	45.95	3.79
Farmington Hills-Warren-Troy MD	67,923	18.00	18.46	23.84	39.70	3.92
Wayne County	48,805	23.09	16.60	19.30	41.01	12.69
Detroit-Livonia-Dearborn MD*	48,792	23.09	16.60	19.30	41.01	12.69
State of Michigan	53,457	19.28	18.32	22.76	39.64	7.42

**The Detroit-Livonia-Dearborn MD is exclusively composed of Wayne County*

Low-income is defined as less than 50 percent of median family income; moderate-income as 50 percent to less than 80 percent of median family income; middle-income as 80 percent to less than 120 percent of median family income; and upper-income as 120 percent or more of median family income. There are currently a substantial number of families in Wayne County living below the poverty level while there are far fewer families living below poverty level in Oakland County. Generally, families below the poverty level require more immediate social services/community development interventions and would not be expected to participate in the credit market directly.

Housing Characteristics and Affordability

The bank's assessment area has a total of 1,318,151 housing units. Of the housing units in the assessment area, 63.56 percent are owner-occupied, 28.48 percent are rental units and less than 6 percent of the units are vacant. These percentages are almost identical to those of the Warren-Troy-Farmington Hills MD, the Detroit-Livonia-Dearborn MD and the State of Michigan. However, these numbers are based on 2000 United States Census Data and may not accurately reflect the consequences of the recent downturn in the area's economy. According to the Federal Deposit Insurance Corporation's (FDIC) Spring 2006 Banking Profile for the State of Michigan, the state's foreclosure rate reached 2.6 percent in 2005 compared to 1.5 percent for the nation. In addition, during 2005, the state's home price appreciation rate was the lowest in the nation at 3.5 percent. This rate was significantly below the national average of 13 percent for the same time period. Low appreciation rates in turn, affect the ability of homeowners to take equity out of their homes. In addition, it may result in slower growth in the housing market.

Affordability ratios, developed by dividing the median household income by the median household value for a given area or groups of geographies, are helpful in comparing costs for different areas. An area with a high ratio generally has more affordable housing than an area with a low ratio. The affordability ratios for the assessment area and for the Warren-Troy-Farmington Hills MD, the Detroit-Livonia-Dearborn MD and the State of Michigan are 37, 37, 42 and 40, respectively, indicating that housing is slightly less affordable in the assessment area.

Labor and Employment

The unemployment rates for Oakland and Wayne Counties have remained high since the previous performance evaluation in 2002. According to the State of Michigan's Department of Labor and Economic Growth, the average unemployment rate for Oakland County in 2005 was 5.7 percent while the rates for Wayne County and the State of Michigan were 8.7 percent and 6.7 percent respectively. The average national unemployment rate remained lower at 5.1 percent according to the United States Bureau of Labor Statistics. This shows an increasing strain on the Michigan economy.

According to the FDIC Spring 2006 State Banking Profile for Michigan, Michigan payrolls declined 17,000 (0.4 percent) during the year ending fourth quarter 2005, bringing the total number of jobs lost since 2000 to approximately 290,000. Many of these job losses have taken place in the automobile industry which is responsible for the largest portion of jobs in the assessment area. These losses are expected to continue as major auto parts suppliers have recently filed for bankruptcy. The strain on many local businesses makes it increasingly difficult to make commercial loans in the area. In addition, the significant job losses have reduced the number of consumers who may qualify for consumer credit.

Major employers in the assessment area are listed in Exhibit 2.

Exhibit 2

Major Employers in the Assessment Area			
Company	**Location**	**Employees**	**Description**
Ford Motor Company	Dearborn	47,091	Automobile Manufacturer
General Motors Corporation	Detroit	20,045	Automobile Manufacturer
William Beaumont Hospitals	Royal Oak	11,745	Private, nonprofit hospital
Chrysler Group	Auburn Hills	10,267	Automobile Manufacturer
Oakwood Healthcare	Dearborn	7,515	Health Care System
EDS Corporation	Troy	7,300	Information Technology
Visteon Corporation	Van Buren Township	6,800	Automobile Supplier
SBC Michigan	Detroit	4,000	Telecommunications
United States Postal Service	Birmingham	3,929	Postal Service

Source: Crain's Detroit Business: December 26, 2005

Community representatives, contacted during the examination to determine the credit needs of the assessment area, indicated that local financial institutions are actively involved in the community and are adequately meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit (LTD) ratio, the percentage of loans and other lending-related activities located in the bank's assessment area, the record of lending to borrowers of different income levels and farms and businesses of different sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, the preceding standards are analyzed and evaluated within the assessment area context, which includes, but is not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portions of the state demographic data on median income, nature of housing stock, housing costs, and other relevant data pertaining to the bank's assessment area.

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio, calculated from data contained in the Consolidated Reports of Condition, was evaluated giving consideration to the bank's capacity to lend, competitor and peers' loan-to-deposit ratios, as well as demographic factors, economic conditions and lending opportunities present in the assessment area.

Based on the bank's LTD ratios relative to its peer group and a sample of competitors, the bank exceeds the standards for satisfactory performance under this criterion. Exhibit 3 shows the

comparison for the eight-quarters ending March 31, 2006.
Exhibit 3

LTD Ratios									
Bank Name, City, 3/06 Assets $(Millions)	**06/04 (%)**	**9/04 (%)**	**12/04 (%)**	**3/05 (%)**	**6/05 (%)**	**9/05 (%)**	**12/05 (%)**	**3/06 (%)**	**Avg.**
Paramount Bank, Farmington Hills, $248.5	126.90	117.57	119.44	124.31	126.17	122.07	123.79	120.52	122.60
Oakland Commerce Bank, Farmington Hills, $116.5	113.63	104.27	120.41	131.34	119.03	118.51	120.00	126.13	119.17
Michigan Heritage Bank, Farmington Hills, $172.1	**93.05**	**93.46**	**93.68**	**91.81**	**91.34**	**91.09**	**94.87**	**98.24**	**93.44**
Fidelity Bank, Birmingham, $235.6	88.59	87.95	94.87	96.18	94.65	89.53	90.96	98.17	92.61
Peer Group	80.13	81.29	81.61	80.78	81.76	81.77	81.65	81.97	81.37
First Independence Bank Detroit, $234.5	44.80	72.58	63.24	59.38	56.87	69.56	49.36	50.57	58.30

Lending in the Assessment Area

To assess the extent of lending within the assessment area, the following were reviewed: Home Mortgage Disclosure Act (HMDA) data and small business loans. The sample period for HMDA data was January 1, 2004 through December 31, 2005. The sample period for small business loans was January 1, 2005 through December 31, 2005. Information from the performance context, such as economic conditions present within the assessment area, loan demand, bank size, financial condition, branching network, and business strategies, were considered when evaluating the bank's performance.

Overall, residential real estate and commercial lending within the bank's assessment area meets the standards for satisfactory performance under this criterion. The percentage of total loans originated in the assessment area is 66.8 percent and is consistent with the previous performance evaluation in which 66.5 percent of the bank's total lending was originated within the assessment area.

The majority of Michigan Heritage Bank's loans are originated within the assessment area. The distribution of a sample of the bank's primary loan products, originated during the years ended December 2004 and December 2005, is illustrated in Exhibit 4. The bank's commercial loan category includes commercial lease loans, commercial and industrial loans and commercial real estate loans. Commercial lease loans represent the majority of the bank's loan activity, accounting for 49.4 percent of the bank's number of loan originations in 2005. These loans are included in the bank's loan activity rather than lease activity because of the way in which the bank obtained the receivables. The bank purchased each lease from a leasing company as a discounted stream of payments which was then booked into the bank's portfolio as a commercial loan. Though the bank is beginning to phase out its leasing activity, it has represented a large portion of the bank's lending activity since the bank's inception. The dominance of this product is mainly attributed to the leasing background of several members of bank management.

Exhibit 4

Distribution of Loans in/out of Assessment Area (AA)			
Loan Type	Number of Loans		
	# in Sample	# in AA	% in AA
2004 HMDA	111	68	61.2%
2005 HMDA	28	16	57.1%
Commercial Loans	256	180	70.3%
Totals	395	264	66.8%

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The distribution of loans among borrowers of different income levels was determined by reviewing Home Mortgage Disclosure Act (HMDA) data and small loans to businesses. The sample period for HMDA-reportable loans was January 1, 2004 through December 31, 2005 . The sample period for small business loans was from January 1, 2005 through December 31, 2005. Information from the performance context, such as economic conditions present within the assessment area, demographics, loan demand, bank size, financial condition, branching network, and business strategies, were considered when evaluating the bank's performance.

Given the demographics of the bank's assessment area, the loan distribution across borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance under this criterion.

The distribution of Michigan Heritage Bank's loans reflects reasonable penetration among borrowers of different income and revenue levels, as supported by a review of residential real estate and commercial loan data. Michigan Heritage Bank does not offer agricultural loans.

Residential Real Estate Loans

Exhibit 5 shows the distribution of the sample of 1-4 family residential real estate loans, originated during the years ending in December 31, 2004 and December 31, 2005 by income level. As shown, the percent of loans to low- and moderate-income borrowers is 19.1 percent in 2004. This number is slightly less than the aggregate of lenders which originated 25.4 percent of its loans to low- or moderate-income borrowers in the Detroit-Livonia-Dearborn MD and 28 percent in Warren-Farmington-Hills-Troy MD in 2004. The percent of loans to low- and moderate-income borrowers is 18.8 percent in 2005. Aggregate data for 2005 was not available at the time of this evaluation. The bank's distribution to low- and moderate income borrowers is lower than the aggregate of lenders because of the gradual decrease in retail lending and eventual elimination of mortgage loans.

In addition, approximately 36.79 percent of the families within the assessment area are considered to have incomes that are low or moderate. When those families who have incomes below the poverty rate are factored out of that percent, 27.5 percent of the families within the assessment area have incomes that are considered low or moderate but remain above the poverty level. When the bank's level of lending to families with incomes that are considered low or moderate is compared to the presence of these families within the market, the bank's performance, although lower, is considered adequate based on its size, resources and locations. Bank management has also decided to phase out of the mortgage lending business. This will impact the bank's level of lending to borrowers of all income levels eventually, but may impact those borrowers with lower incomes first because the bank will continue to accommodate its commercial customers with retail credit products.

Exhibit 5

Loan Distribution of 2004 Residential Real Estate Loans by Income Level		
Income Level	***Total Number of Loans***	***Percent of Loans****
Low	2	2.9%
Moderate	11	16.2%
Middle	14	20.6%
Upper	33	48.5%
Unknown	8	11.8%
Total	68	100.0%

*HUD's estimated 2004 median family income was used to determine the income level of the applicants.

Loan Distribution of 2005 Residential Real Estate Loans by Income Level		
Income Level	***Total Number of Loans***	***Percent of Loans****
Low	0	0.0%
Moderate	3	18.8%
Middle	1	6.3%
Upper	3	18.8%
Unknown	9	56.3%
Total	16	100.0%

*HUD's estimated 2005 median family income was used to determine the income level of the applicants.

Commercial Loans

The distribution of commercial loans reflects a reasonable penetration among small businesses. The distribution is selected from commercial lease loans, commercial loans and commercial real estate loans originated between January 1, 2005 and December 31, 2005.

Exhibit 6

Distribution of Small Loans to Businesses within the Assessment Area		
Original Dollar Amount	**Outstanding Number**	**Outstanding Dollar Amount (000's)**
Commercial Lease Loans		
Less than or equal to $100,000	90	$3,595,182.58
Greater than $100,000 through $250,000	28	$4,209.202.74
Greater than $250,000 through $1 million	23	$12,961,758.02
Total	141	$20,766,143.34
Commercial and Industrial Loans		
Less than or equal to $100,000	9	$345,031.83
Greater than $100,000 through $250,000	2	$384,081.72
Greater than $250,000 through $1 million	3	$1,411,269.19
Total	14	$2,140,382.74
Loans Secured by Non-Farm Nonresidential Properties		
Less than or equal to $100,000	4	$227,400.00
Greater than $100,000 through $250,000	3	$475,000.00
Greater than $250,000 through $1 million	7	$3,675,954.00
Total	14	$4,378,354.00
Commercial Lease Loans, Commercial and Industrial Loans and Loans Secured by Non-Farm Nonresidential Properties		
Grand totals	169	$27,284,880.08

As Exhibit 6 shows, business loan originations in the $100,000 or less category represent 61 percent of the number and 15 percent of the dollar amount of small loans to businesses. The bank originated 14.4percent of its commercial loans to businesses whose gross annual revenues are less than $1 million. This number is low due to the nature of the bank's leasing business, which accounts for 83.3 percent of its commercial loan originations in the assessment area. The majority of the bank's lease loans are purchased from leasing companies with whom bank personnel have existing business relationships. The leasing companies in turn make the majority of their leases to businesses whose gross annual revenues are more than $1 million. As a result, only 2 percent of the bank's lease loans are originated to businesses whose gross annual revenues are less than $1 million. This can be compared to the bank's commercial and industrial loans and commercial real estate loans in which 76.7 percent are originated to businesses whose gross annual revenues are less than $1 million. Because bank management has decided to re-weight its commercial activities in favor of lending over leases, the level of lending provided to businesses with gross annual revenues of less than $1 million provides a strong indicator of the bank's ability and willingness to meet the credit needs of small businesses as they have been defined under the CRA.

According to community contacts, area financial institutions are meeting the needs of the business owners in the area.

Geographic Distribution of Loans

The distribution of lending among geographies of different income levels within the assessment area, particularly those defined as low- and moderate-income, was reviewed. To assess the bank's performance, the following were reviewed: Home Mortgage Disclosure Act (HMDA) data and small business loans. The sample period for HMDA data product was January 1, 2004 through December 31, 2005. The sample period for commercial loans was January 1, 2005 through December 31, 2005. Loans for which census tracts were unknown were not included in the analysis. Demographic characteristics of census tracts, such as housing types and income level, were considered in the evaluation.

The geographic distribution of loans meets the standards for satisfactory performance under this criterion.

Thirty-two percent of the census tracts in the bank's assessment area are designated low- or moderate- income. In 2004, the bank originated 16.2 percent or $1.2 million of its HMDA-reportable loans in low- or moderate-income census tracts within the assessment area. The aggregate of lenders originated 12.8 percent of its loans in Oakland County to low- and moderate-income borrowers. In Wayne County, the aggregate of lenders originated 23.5 percent of its loans to low- and moderate-income borrowers for the same year. In 2005, the bank originated 18.8 percent or $357,000 of its loans in low- or moderate-income census tracts. Aggregate data for 2005 was not available at the time this performance evaluation was conducted. The bank's overall lending in low- and moderate-income tracts appears to be satisfactory, particularly in the Oakland County market. The bank's penetration in Wayne County is not as strong, but can be explained by the existence of only one branch in the northwest part of the county in an upper-income census tract. The majority of the county's low- and moderate-income census tracts are located in the southeast portion of the county near the City of Detroit, which is quite far from the bank's branch. The percentage of unemployed persons in the low- and moderate-income tracts (30.92 percent) is more than triple the percentage of unemployed persons in the middle- and upper-income tracts (8.25 percent). The high number of unemployed persons may have had a negative impact on the number of qualified applicants available for mortgage loans. In addition, the number of owner-occupied units in low- and moderate-income census tracts is less than half the number in middle- and upper-income tracts, which may have further reduced the demand for mortgage loans.

In 2005, the bank originated 6.7 percent of its commercial loans or $2,623,875.02 in low- or moderate-income census tracts. This appears be low when compared to the number of low- and moderate-income census tracts in the bank's assessment area, which is 32 percent and the number of businesses located in those tracts, which is 20.4 percent. However, given the asset size of the institution, the distribution of the bank's branches which are located in the upper income areas of Oakland and Wayne County and the large size of the assessment area, this penetration is adequate. The bank's assessment area has 951 tracts total; its commercial lending/leasing activity which represents a significant portion of the bank's reviewed activity resulted in 403 loans/leases in 2005. These numbers, when considered in light of the bank's size and office locations, support weighting the distribution of the bank's activity among borrowers of different incomes levels more heavily than the geographic distribution of the bank's activities.

No low- or moderate-income segments were arbitrarily excluded from the assessment area. Community representatives stated that financial institutions are meeting the credit needs of areas within the low-income community that are considered credit-worthy.

Complaints

Neither the bank nor this Reserve Bank has received any CRA-related complaints since the previous examination.

Fair Lending

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. A sample of the banks' lending activity was reviewed to determine whether loan policies and lending standards were in compliance with the fair lending laws and regulations, and that these are being consistently applied to all applicants. No evidence of prohibited discriminatory or other illegal credit practices was detected.

METROPOLITAN DIVISION

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE WARREN-TROY-FARMINGTON HILLS, MI METROPOLITAN DIVISION.

Michigan Heritage Bank maintains four full service branches in Oakland County, Michigan, which is located within the Warren-Troy-Farmington Hills, MI Metropolitan Division (MD). The bank's main office is located in Farmington Hills Michigan, along with one branch office. The remaining branches are located in the cities of Troy, Novi and Wixom. The bank opened the Wixom branch since the previous performance evaluation. No branches have been closed in the assessment area. The Novi and Troy branches are located in upper-income census tracts while the bank's main office and Farmington Hills branch are located in middle-income census tracts. The Wixom branch is the only branch located in a low-income census tract.

The assessment area includes 331 census tracts which comprise the entirety of Oakland County, Michigan, which is located in the northern part of the Detroit Metropolitan area; 15 percent of the census tracts in the assessment area are designated low- or moderate-income.

The total population of the assessment area is 1,194,156. Though the population grew over 10 percent between 1990 and 2000, it has slowed recently growing only 1.7 percent between April 1, 2000 and July 1, 2005. This can be explained by the higher unemployment rate caused by the recent bankruptcies and restructurings in the auto industry.

There are 316,669 households that are families residing in the Oakland County assessment area. Of the households that are families, 32.1 percent are low- or moderate-income families. Less than 3.8 percent of the families are below the poverty level.

The majority of housing in the assessment area is comprised of single family housing with 71.6 percent of the housing owner-occupied. The median housing value is $174,784, which is significantly higher than that of the MD ($153,130) or the state ($110,300).

The largest employers in the assessment area are General Motors, William Beaumont Hospitals and the Chrysler Group. Recent downsizing and restructuring in the auto industry has had a negative impact on the local economy. Despite the relative prosperity of the county compared to the overall state, its unemployment rate remains high at an annual average of 5.7 percent for 2005. However, this remains lower than the state (6.7 percent) or neighboring Wayne County (8.7 percent) for the same time period. In addition, the 2005 HUD adjusted median family income for the Warren-Farmington Hills-Troy MD remains relatively high at $78,400.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

Given the demographics of this assessment area as well as the bank's size, resources, and locations, the bank's loan distribution across borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance under this criterion.

Residential Real Estate

The following tables compare the percentage of HMDA reportable loans by borrower income level to the percentage of families by income level in the assessment area:

Exhibit 7

Loan Distribution of 2004 Residential Real Estate Loans by Income Level in Oakland County				
Income Level	*Families*	*Percent of Families*	*Loans*	*Percent of Loans*
Low	50,635	16.0%	2	4.5%
Moderate	51,016	16.1%	5	11.4%
Middle	69,507	21.9%	11	25.0%
Upper	145,511	46.0%	22	50.0%
Unknown	0	0.0%	4	9.1%
Total	316,669	100.0%	44	100.0%

Loan Distribution of 2005 Residential Real Estate Loans by Income Level in Oakland County				
Income Level	*Families*	*Percent of Families*	*Loans*	*Percent of Loans*
Low	50,635	16.0%	0	0.0%
Moderate	51,016	16.1%	1	25.0%
Middle	69,507	21.9%	1	25.0%
Upper	145,511	46.0%	1	25.0%
Unknown	0	0.0%	1	25.0%
Total	316,669	100.0%	4	100.0%

The bank's residential real estate lending in Oakland County to low- and moderate-income borrowers is 15.9 percent in 2004. The bank's lending is lower than the aggregate of lenders, which originated 28 percent of its loans to low- and moderate-income borrowers in Oakland County in 2004. The bank's residential real estate lending in Oakland County to low- and moderate-income borrowers is 25 percent in 2005. Aggregate data for 2005 was not available at the time of this evaluation. The bank's lower percentage is a result of the downsizing and eventual elimination of its residential mortgage department

Commercial Loans

The distribution of commercial loans reflects a reasonable penetration among small businesses. The distribution is selected from commercial lease loans, commercial loans and commercial real estate loans originated between January 1, 2005 and December 31, 2005.

Exhibit 8

Commercial Lease Loans, Commercial & Industrial and Commercial Real Estate Loans in Oakland County		
Loan Amount	*Number*	*Dollar*
Less than or equal to $100,000	78	$3,172,002.10
Greater than $100,000 through $250,000	25	$4,008,998.16
Greater than $250,000 through $1,000,000	17	$8,777,522.61
Total	120	$15,958,522.87

Business loan originations in the $100,000 or less category represent 65 percent of the number and 19.9 percent of the dollar amount of small loans to businesses. The bank originated 12.2 percent of its commercial lease loans, commercial loans and commercial real estate loans to businesses whose gross annual revenues are less than $1 million. This number appears to be low due to the large volume of commercial lease loans, which represent 87.8 percent of the commercial loans originated in this assessment area. The majority of the bank's lease loans are purchased from leasing companies with whom bank personnel have existing business relationships. The leasing companies in turn make the majority of their leases to businesses whose gross annual revenues are more than $1 million. As a result, only 13.9 percent of the bank's lease loans are originated to businesses whose gross annual revenues are less than $1 million. This can be compared to the bank's commercial and industrial loans and commercial real estate loans in which 63.2 percent are originated to businesses whose gross annual revenues are less than $1 million.

Geographic Distribution of Loans

The geographic distribution of loans meets the standards for satisfactory performance under this criterion.

In 2004, the bank originated 13.6 percent of its residential real estate loans in low- or moderate-income census tracts within the assessment area. In 2004, the aggregate of lenders originated

12.8 percent of its loans in low- or moderate-income census tracts. The bank's percentage of originations was slightly higher than the aggregate of lenders for 2004. In 2005, the bank did not originate any of its residential real estate loans in low- or moderate-income census tracts. Aggregate data for 2005 was not available at the time of this evaluation. The lack of lending activity in 2005 can be attributed to the closing of the residential mortgage department in March 2005.

In 2005, the bank originated 5.7 percent or $963,875.02 of its commercial loans in low-or moderate-income census tracts within the assessment area. This appears to be low when compared to the number of low- and moderate-income census tracts in the bank's assessment area, which is 15.1 percent and the number of businesses located in those tracts, which is 13.8 percent. However, the majority of the branches in Oakland County are located in middle- or upper-income census tracts making it difficult for the branch to penetrate many of the low- and moderate-income tracts. Given the bank's asset size, loan volume and the size of the assessment area, this penetration is adequate; these factors also support weighting the distribution of the bank's lending by borrower income more heavily.

METROPOLITAN DIVISION

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE DETROIT-LIVONIA-DEARBORN, MI METROPOLITAN DIVISION.

Michigan Heritage Bank operates one full-service branch in Wayne County, Michigan which is located in the Detroit-Livonia-Dearborn, MI Metropolitan Division (MD). The branch was opened in 2005 and is located in the city of Livonia in the northwest portion of Wayne County. No branches have been closed in the assessment area since the previous evaluation. The Livonia branch is located in an upper-income census tract.

The assessment area contains 620 census tracts which comprises the entirety of Wayne County, Michigan as well as the Detroit-Livonia-Dearborn MD. Wayne County is located in the southeastern part of Michigan and includes the city of Detroit. Forty-two percent of the tracts are designated low- or moderate-income tracts.

The assessment area has a population of 2,061,162. The population of the assessment area declined 2.4 percent between 1990 and 2000 and has continued to decline another 3.1 percent between April 1, 2000 and July 1, 2005.

There are 514,979 households that are families in the assessment area. Of these families, 39.7 percent are designated low- or moderate-income families. In addition, 12.7 percent of families are below the poverty level.

The majority of housing in the assessment area is single-family homes; 61 percent of the housing in the assessment area is owner-occupied. However, the housing stock is older with the median age of housing structures at 47 years. This is significantly higher than the median age of the state's housing stock which is 35 years. Generally, older housing can be indicative of deteriorating housing stock. In addition, the median housing value for the assessment area is $96,226. This is much lower than that of the state which is $110,300 and neighboring Oakland County which is $174,784.

The largest employers in the assessment area are Ford Motor Company, Oakwood Healthcare, Visteon Corporation and General Motors Corporation. Recent downsizing and restructuring at some of the major employers in the auto industry have had a particularly devastating effect on the local economy. The unemployment rate for the county has remained high with an annual average of 8.7 percent in 2005. According to the FDIC, because of continued restructuring in the auto industry, economists expect the unemployment rate to remain above the national and state levels for the near-term. These factors reduce the number of individuals and businesses eligible for credit.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

Given the demographics of this assessment area as well as the bank's size, resources, and locations, the bank's loan distribution across borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance under this criterion.

Residential Real Estate

The following table compares the percentage of HMDA reportable loans by borrower income level to the percentage of families by income level in the assessment area:

Exhibit 9

Loan Distribution of 2004 Residential Real Estate Loans by Income Level in Wayne County				
Income Level	*Families*	*Percent of Families*	*Loans*	*Percent of Loans*
Low	118,887	23.1%	0	0.0%
Moderate	85,463	16.6%	6	25.0%
Middle	99,413	19.3%	3	12.5%
Upper	211,216	41.0%	11	45.8%
Unknown	0	0.0%	4	16.7%
Total	514,979	100.0%	24	100.0%

Loan Distribution of 2005 Residential Real Estate Loans by Income Level in Wayne County				
Income Level	*Families*	*Percent of Families*	*Loans*	*Percent of Loans*
Low	118,887	23.1%	0	0.0%
Moderate	85,463	16.6%	2	16.6%
Middle	99,413	19.3%	0	0.0%
Upper	211,216	41.0%	2	16.7%
Unknown	0	0.0%	8	66.7%
Total	514,979	100.0%	12	100.0%

The bank's residential real estate lending in Wayne County to low- and moderate-income borrowers was 25 percent in 2004 and 16.7 percent in 2005; none of the loans were originated to borrowers with low incomes. The bank's lending is slightly lower than the aggregate of lenders, which originated 25.4 percent of its loans to low- and moderate-income borrowers in Wayne County in 2004. Aggregate data for 2005 was not available at the time of this evaluation. The decrease in the penetration of low- and moderate-income tracts from 2004 to 2005 is a result of the closing of the bank's residential mortgage department in March 2005. The lack of lending to borrowers with low incomes may be attributed to a number of factors including the bank's limited ability to reach low-income populations with its current branch distribution network. However, the bank provides loans to commercial customers who use the proceeds to rehab residential properties that are frequently located on low- and moderate-income census tracts within Wayne County and may benefit the low- and moderate-income families within those census tracts. This activity is also discussed under the section titled Geographic Distribution of Loans.

Commercial Loans

The distribution of commercial loans reflects a reasonable penetration among small businesses. The distribution is selected from commercial loans and commercial real estate loans originated between January 1, 2005 and December 31, 2005.

Exhibit 10

Commercial Lease Loans, Commercial & Industrial and Commercial Real Estate Loans in Wayne County		
Loan Amount	***Number***	***Dollar***
Less than or equal to $100,000	25	$995,612.31
Greater than $100,000 through $250,000	8	$1,059,286.30
Greater than $250,000 through $1,000,000	16	$9,271,458.60
Total	49	$11,326,357.21

Business loan originations in the $100,000 or less category represent 51 percent of the number and 8.8 percent of the dollar amount of small loans to businesses. The bank originated 19.3 percent of its commercial lease loans, commercial loans and commercial real estate loans to businesses whose gross annual revenues are less than $1 million. This number appears to be low due to the large volume of commercial lease loans, which represent 73.6 percent of the commercial loans originated in this assessment area. The majority of the bank's lease loans are purchased from leasing companies with whom bank personnel have existing business relationships. The leasing companies in turn make the majority of their leases to businesses whose gross annual revenues are more than $1 million. As a result, none of the bank's lease loans are originated to businesses whose gross annual revenues are less than $1 million. This can be compared to the bank's commercial and industrial loans and commercial real estate loans in which 73.3 percent are originated to businesses whose gross annual revenues are less than $1 million.

Geographic Distribution of Loans

The geographic distribution of loans meets the standards for satisfactory performance under this criterion.

In 2004, the bank originated 20.8 percent of its residential real estate loans in low- or moderate-income census tracts within the assessment area. In 2004, the aggregate of lenders originated 23.5 percent of its loans in low- or moderate-income census tracts. In 2005, the bank originated 25 percent of its residential real estate loans in low- or moderate-income census tracts. Aggregate data for 2005 was not available at the time of this evaluation. The bank's percentage of originations was only slightly less than the aggregate of lenders for 2004. This percentage is considered high given the location of the bank's one branch in the assessment area which is located quite far from the majority of the county's low- and moderate-income census tracts concentrated in and around the city of Detroit. This relatively high penetration appears to be the result of originations secured by non-owner occupied rental properties in the low- and moderate income areas of the county.

In 2005, the bank originated 8.7 percent or $1,660,000.00 of its commercial loans in low- or moderate-income census tracts within the assessment area. This appears be very low compared to when compared to the number of low- and moderate-income census tracts in the bank's assessment area, which is 42.1 percent and the number of businesses located in those tracts, which is 28 percent. However, the only branch in Wayne County is located in an upper-income census tract on the far northwestern border of the county making it difficult for the branch to penetrate many of the low- and moderate-income tracts located in and around the City of Detroit. Given the bank's asset size, loan volume and the size of the assessment area, this penetration is adequate.

Appendix A

GLOSSARY

Aggregate lending: *The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.*

Block numbering area ("BNA"): *Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.*

Census tract: *Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon 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 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 CFR 121.301) or have gross annual revenues of $1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies,*

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

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 non-relatives 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 household and no wife present) or "female householder" (a family with a female householder and no husband present).*

Full review*: Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).*

Geography*: A census tract or a block numbering area delineated by the U.S. 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 such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied,* *and withdrawn).*

***Home mortgage loans**: Include 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.*

***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.*

***Limited review:** Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).*

***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 lenders in the MSA/assessment area.*

***Metropolitan area**: Any primary metropolitan statistical area ("PMSA"), metropolitan statistical area ("MSA"), or consolidated metropolitan area ("CMSA"), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.*

***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.*

***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.*

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

***Optional loans:** Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes 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.*

***Small loans 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 are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.*

Small loans to farms: *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 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.*

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.*

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 a geography.*