



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 5, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Huron National Bank
Charter Number 16857**

**300 Erie Street
Rogers City, Michigan 49779**

**Comptroller of the Currency
Detroit Field Office
Omni Officentre, Suite 411
26877 Northwestern Highway
Southfield, Michigan 48034**

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 CRA RATING

This institution is rated Satisfactory.

- Huron National Bank (Huron NB) has demonstrated a good record of originating loans to individuals of different income levels, particularly low- and moderate-income borrowers.
- Huron NB has a reasonable record of addressing the needs of small businesses in its assessment area (AA). Businesses with sales less than \$1 million represent a majority of businesses in the AA.
- A substantial majority of the bank's loans were made within its designated AA.
- The bank's loan-to-deposit ratio is more than reasonable and demonstrates a willingness to provide financial services to the community. The loan-to-deposit ratio is greater than Huron NB's state peer group, which includes northern Michigan banks of similar size.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA given the lending opportunities in the AA.

DESCRIPTION OF INSTITUTION

Huron NB is a full-service community bank headquartered in Rogers City, Michigan. The bank has no subsidiaries. Huron NB is a wholly owned subsidiary of Huron National Bancorp, a one-bank holding company. Huron NB has one office and one full-service Automatic Teller Machine, both located in Rogers City.

As of December 31, 2003, Huron NB's total assets were \$44.5 million and represented 100 percent of the holding company's total assets and gross income. Huron NB's loan portfolio represented 74.67 percent of total assets, or \$33 million, for the period. Tier One capital was \$4.6 million, representing 10.28 percent of total assets. Huron NB's primary focus is business lending, home mortgage lending, and consumer lending. Other lending products include construction and agricultural loans. Consideration was given to the bank's record of performance from the previous evaluation period of October 13, 1998 through April 5, 2004. Lending data from January 1, 2002 through December 31, 2003 was primarily used.

As of the date of this evaluation, Huron NB does not have any financial, legal, or other impediments restricting its capacity to serve the community. Huron NB was rated satisfactory during the last CRA evaluation conducted on October 13, 1998.

DESCRIPTION OF ASSESSMENT AREA

Huron NB has one AA, which consists of the county of Presque Isle, Michigan. Huron NB's office is located in Rogers City, the largest community within Presque Isle County and also the county seat. As a result of the 1990 census, the AA consisted of eight geographies, six of which were designated middle income and two tracts not categorized due to lack of population in those areas. As of the 2000 census, the AA consists of six geographies including five designated as middle-income and one designated as moderate-income. The AA consists of contiguous geographies and none are arbitrarily excluded. The AA meets the requirements of the regulation.

The AA consists primarily of small towns and rural communities. The AA is landlocked to the north by Lake Huron. More than 80,000 of the approximate 420,000 acres, or about 19 percent of the AA's land, are state-owned recreational lands. Presque Isle County's population was 14,411 according to 2000 U.S. Census data, a slight increase from 13,743 in 1990.

The AA's trade is highly dependent on seasonal tourism. Presque Isle County's annual average unemployment rate during 2003 was 12.3 percent compared to the Michigan state unemployment rate of 7.2 percent (seasonally adjusted) for the same period. Unemployment typically rises to about 20 percent during the winter season. Seasonal residents represent about 35 percent of the area population. The number of owner occupied households is 85.5 percent compared to the state's 73.8 percent. Major employers include two mining operations, automotive and iron works manufacturers, school districts, municipal governments, and medical service providers.

Several financial institutions provide competition in the AA. Currently there are three community banks and two credit unions servicing Presque Isle County and several mortgage brokers. Other institutions and mortgage brokers not located in the bank's AA also provide home lending services.

Although the bank's primary lending and deposit base is Presque Isle County, the majority of its lending and deposit activities occur in the Rogers City area. Huron NB held 33.32 percent of the deposit market share in Presque Isle County as of June 30, 2003. Huron NB's deposit market share ranks first in the county. The community banks, including Huron NB, hold nearly 100 percent of the deposit market share in Presque Isle County.

One community contact was made during this evaluation. The community contact was with the local government office for economic development. According to the community contact, the biggest challenge facing the AA is providing employment opportunities that include benefits. The community contact indicated there are opportunities for small businesses in the county's two renaissance zones located in Onaway and Rogers City. According to the contact, there is an additional need for home repair and improvement loans with favorable terms for low- and moderate-income residents. The contact concluded that the banks in the area are meeting the needs of the community.

The 2003 HUD estimated median family income level for Michigan counties not within a metropolitan area, based on 2000 US census data, was \$48,300 for Presque Isle County. The average price of housing in the AA as of 2000 is \$77,800, up from \$44,000 in 1990. This compares to \$115,600 for the state of Michigan.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Huron NB's loan-to-deposit ratio is more than reasonable and demonstrates a willingness to provide financial services to the community. Huron NB's average quarterly loan-to-deposit ratio for the 21 quarters ending December 31, 2003 was 77.36 percent.

Based on a review of uniform bank performance report information for the same period, Huron NB's loan-to-deposit ratio was greater than average peer, which showed a quarterly average net loan-to-deposit ratio of 68.78 percent. Huron NB's peer group includes commercial banks in northern Michigan with total assets less than \$100 million.

Huron NB was active in meeting the credit needs of the community, especially in the areas of business, home, and consumer lending. Huron NB originated about 1,500 loans totaling \$39 million during 2002 and 2003. Of these, the bank originated 412 loans for businesses totaling approximately \$14 million. During the same period, the bank originated 259 loans for home purchases and refinances totaling about \$13.8 million, and 716 consumer loans totaling about \$4.7 million. Huron NB also originated 54 construction loans totaling approximately \$4.7 million and 26 agricultural loans totaling about \$1.6 million.

Lending in Assessment Area

A substantial majority of loans are in the bank's AA. The loan sample included loans from each of the bank's primary loan types and originated between January 1, 2002 and December 31, 2003. Table 1 below indicates that 91.45 percent of the loan dollars sampled and 90.00 percent of the number of loans sampled during the evaluation originated within Huron NB's AA.

Table 1 - Lending in Presque Isle County

| Loan Type | Number of Loans | | | | Dollars of Loans | | | | Total \$ | |
|----------------|-----------------|-------|---------|-------|------------------|-----------|-------|---------|----------|-----------|
| | Inside | | Outside | | Total # | Inside | | Outside | | |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Loans | 34 | 85.00 | 6 | 15.00 | 40 | 1,887,729 | 91.04 | 185,857 | 8.96 | 2,073,586 |
| Consumer Loans | 36 | 90.00 | 4 | 10.00 | 40 | 180,638 | 92.69 | 14,251 | 7.31 | 194,889 |
| Business Loans | 38 | 95.00 | 2 | 5.00 | 40 | 1,398,348 | 91.85 | 124,000 | 8.15 | 1,522,348 |
| Totals | 108 | 90.00 | 12 | 10.00 | 120 | 3,466,715 | 91.45 | 324,108 | 8.55 | 3,790,823 |

Source: Random sample of loans from the bank's home loan, consumer, and business portfolios originated during 2002 and 2003.

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

The bank's lending distribution to borrowers of different incomes and to businesses of different sizes is reasonable. Huron NB's primary borrower product lines include business, home, and consumer loans. The largest dollar volume of originations for the review period was business loans, at \$14 million, followed by home loans, at \$13.8 million. Consumer loans represented the largest number volume of loans originated during the period at 716 of 1,478 loans. The sample included 40 home loans. Of these, 20 loans were originated during 2002 and represented about \$799,000. The 2003 sample included 20 home loans and represented about \$1.274 million. The consumer loan sample for the same period included 40 originations. Of these, 20 loans were originated in 2002 and represented about \$98,000, and 20 loans originated during 2003 and represented about \$96,700. The business loan sample included 40 loans originated during 2002 and 2003 and represented about \$1.5 million.

The bank's distribution of home loans to borrowers of different income levels is good as shown in Tables 2-1 and 2-2 below. Lending to low-income borrowers during 2002 represents a reasonable percentage of families in the AA identified as low-income given credit needs identified within the community. Lending to low-income borrowers during 2003 represents a more than reasonable percentage of families in the AA. Lending to moderate-income borrowers represents a very good percentage of families in the AA identified as moderate-income according to U.S. Census data.

| Table 2-1 Borrower Distribution of Home Loans made during 2002 in Presque Isle County as compared to 1990 U.S. Census Data | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Home Loans | 23.14% | 10.00% | 20.25% | 25.00% | 24.21% | 30.00% | 32.40% | 35.00% |

Source: Random loan sample of 2002 originations; 1990 U.S. Census data.

| Table 2-2 Borrower Distribution of Home Loans made during 2003 in Presque Isle County as compared to 2000 U.S. Census Data | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Home Loans | 20.52% | 25.00% | 23.56% | 40.00% | 25.95% | 25.00% | 29.97% | 10.00% |

Source: Random loan sample of 2003 home loan originations; 2000 U.S. Census data.

Huron NB's distribution of consumer loans to borrowers of different income levels is excellent compared to the percentage of households in low- and moderate-income categories and demonstrates its willingness to meet the community's lending needs. Refer to Tables 3-1 and 3-2 below. Lending to low-income borrowers represents a very good percentage of households in the AA identified as low-income according to the U.S. Census data. Lending to moderate-

income borrowers represents a good percentage of households in the AA identified as moderate-income according to U.S. Census data.

| Table 3-1 Borrower Distribution of Consumer Loans made during 2002 in Presque Isle County as compared to 1990 U.S. Census Data | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 28.32% | 60.00% | 16.32% | 15.00% | 20.99% | 20.00% | 34.37% | 5.00% |

Source: Random loan sample of 2002 originations; 1990 U.S. Census data.

| Table 3-2 Borrower Distribution of Consumer Loans made during 2003 in Presque Isle County as compared to 2000 U.S. Census Data | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 25.44% | 40.00% | 19.73% | 20.00% | 23.27% | 25.00% | 31.56% | 15.00% |

Source: Random loan sample of 2003 originations; 2000 U.S. Census data.

Huron NB's percentage of lending to small businesses is reasonable compared to the percentage of small businesses within the bank's AA. A majority of the bank's business loans are made to businesses with revenues less than \$1 million. Refer to Table 3-3 below. The primary factor affecting the bank's lending to small businesses is competition by other banking institutions.

| Table 3-3 Borrower Distribution of Loans to Businesses in Presque Isle County as compared to 2003 Business Demographic Data | | |
|--|--------------------|----------------|
| Business Revenues (or Sales) | $\leq \$1,000,000$ | $>\$1,000,000$ |
| % of AA Businesses* | 94.88% | 5.12% |
| % of Bank Loans in AA by # | 90.00% | 10.00% |
| % of Bank Loans in AA by \$ | 88.34% | 11.66% |

Source: Random loan sample of 2002 and 2003 originations; 2003 Business Demographic Data.

* 25.78% of AA businesses did not report revenue data.

Geographic Distribution of Loans

A meaningful geographic distribution analysis based on demographics for loan period 2002 could not be performed for Huron NB as there were no low- or moderate-income geographies in the AA as of the 1990 U.S. Census. The sample included 60 loans made in Huron NB's AA during 2002. The general observation concluded the bank-originated loans throughout the AA during 2002.

Huron NB's geographic distribution of loans reflects a reasonable dispersion of loans throughout the AA for 2003. As of 2000 U.S. Census, the AA consists of six geographies, one of which is designated a moderate-income tract and five are designated middle-income tracts. The 2003 sample included 20 home loans representing about \$1.274 million. The consumer loan sample included 20 loan originations and represented about \$96,700 for the same period. The business loan sample included 40 loans and represented about \$1.5 million. Lending opportunities to the moderate-income tract located in the AA is impacted by competition from other banking institutions and the level of private and state owned large parcels of land within that tract.

Huron NB's dispersion of home loans to geographies of different income levels is reasonable given the lending opportunities and based upon general observation of lending activities in the prior year. Refer to Table 4-1 below.

| Table 4-1 Geographic Distribution of Home Loans in Presque Isle County as compared to 2000 U.S. Census Data | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan type | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Loans | 0.00 | 0.00 | 16.45 | 5.00 | 83.55 | 95.00 | 0.00 | 0.00 |

Source: Random loan sample of 2003 originations; 2000 U.S. Census data.

Huron NB's dispersion of consumer loans to geographies of different income levels is reasonable given the lending opportunities within the AA and based upon general observation of lending activities in the prior year. Refer to Table 4-2 below.

| Table 4-2 - Geographic Distribution of Consumer Loans in Presque Isle County as compared to 2000 U.S. Census Data | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 0.00 | 0.00 | 18.00 | 5.00 | 82.00 | 95.00 | 0.00 | 0.00 |

Source: Random loan sample of 2003 originations; U.S. Census data.

Huron NB's dispersion of business loans to geographies of different income levels is reasonable given the lending opportunities and based upon general observation of lending activities in the prior year. Refer to Table 4-3 below.

| Table 4-3 - Geographic Distribution of Loans to Businesses in Presque Isle County as compared to 2003 Demographic Data | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loans | 0.00 | 0.00 | 12.50 | 5.00 | 87.50 | 95.00 | 0.00 | 0.00 |

Source: Random sample of 2002 and 2003 business loans; 2003 Geodemographic Data.

Community Development Activities

Huron NB has addressed the community's needs through community development services. The bank provided funds to support community development activities totaling about \$313,000 from 1998 through 2003. During the period, Huron NB provided approximately \$103,000 for loans with community development characteristics for affordable housing in the AA. These loans were made to area community service programs to construct new homes for resale. Huron NB also provides loan servicing for area community revolving loan programs for home repair and improvement and small business loans.

Bank employees provide community services to support low- and moderate-income programs. Bank employees are members of the loan committee approving revolving funds for home repair and improvement and small business loans. Additionally, the bank provides small consumer loans to first-time low- and moderate-income borrowers.

Responses to Complaints

Huron NB has not received any complaints that affect the bank's Community Reinvestment Act rating.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.