



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 2, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**West Michigan National Bank & Trust
Charter Number 17748**

**501 Main
Frankfort, MI 49635-1009**

**Comptroller of the Currency
Detroit Field Office
26877 Northwestern Highway Omni Centre, Suite 411
Southfield, MI 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.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The major factors that support this rating are:

- West Michigan National Bank & Trust (West Michigan NB&T) has demonstrated a good record of lending to borrowers of all income levels, and to businesses of different sizes. Our loan sample disclosed a strong performance of lending to low- and moderate-income borrowers and a good performance of lending to small businesses.
- The bank's loan-to-deposit ratio is less than reasonable. West Michigan NB&T's loan-to-deposit ratio over the evaluation period was 58.3 percent, which represents a low level. The bank's loan-to-deposit ratio has declined from the prior CRA evaluation level of 69.0 percent. This decline is partly due to an influx of deposits over the past two years.
- A majority of loans was made within the bank's assessment area (AA) based on a loan sample. This reflects an adequate performance of lending in the AA.
- West Michigan NB&T's geographic distribution of loans reflects a reasonable dispersion throughout the AA.

DESCRIPTION OF INSTITUTION

West Michigan NB&T is a \$30.6 million intrastate financial institution located in the Northwestern portion of Michigan's lower peninsula, on Lake Michigan. The bank operates two offices with the main office in Frankfort, Michigan and a branch office in Manistee, Michigan. The bank has not opened or closed any branch offices over the evaluation period. West Michigan NB&T does not have any automatic teller machines (ATMs), but offers ATM cards enabling customers to access financial services through other networks.

West Michigan NB&T is a full service financial institution, offering a variety of products. Loan products include commercial/business loans, agricultural loans, residential mortgage loans, and consumer loans. Deposit products include checking accounts, savings accounts, money market accounts, and certificates of deposit. The bank also offers trust services. As of December 31, 2003, the bank reported \$10.4 million in outstanding loans. Net loans and leases to average assets ratio was 33.1 percent, and tier one leverage capital was \$7.3 million or 23.7 percent of adjusted average assets. The loan portfolio at December 31, 2003 was comprised of the loan categories shown in table 1 below.

There are no legal impediments that would adversely affect the bank’s ability to serve the community. The previous CRA evaluation was performed in the fourth quarter of 1998 and resulted in a CRA rating of “satisfactory.”

Table 1 Loan Portfolio Breakdown December 31, 2003		
Loan Category	Dollar Amount (000)	Percentage
Commercial	\$5,730	55.4%
Residential Real Estate	\$4,186	40.4%
Consumer	\$ 434	4.2%
Total	\$10,350	100.0%

DESCRIPTION OF ASSESSMENT AREA (AA)

West Michigan NB&T’s AA includes portions of Benzie and Manistee counties, located on Lake Michigan in the Northwestern portion of Michigan. Both counties are heavily dependent on tourism and agriculture. Tourism is a major industry with boating, fishing, a variety of other water activities, a casino in Manistee County, and a large ski and golf resort in Benzie County. Some of the major employers in Benzie and Manistee counties are illustrated below:

COUNTY	MAJOR EMPLOYERS
Benzie	Crystal Enterprises Inc., Graceland Fruit Coop, Smeltzer Orchard Co, Mitchell Manufacturing
Manistee	Little River Casino, Oaks Correctional Facility, Tenneco Packaging, Morton Intl Inc., Martin Marietta Magnesia Spec.

The bank’s AA is comprised of seven middle-income tracts. There are no low- or moderate-income tracts within the AA. The AA does meet the requirements of the CRA regulation. Table 2 below provides demographic information on the bank’s AA.

**Table 2 Demographic Information for West Michigan NB&T
Portions of Benzie and Manistee Counties
Non-Metropolitan Statistical Area (MSA)**

Demographic Characteristics	#	Low (% Of #)	Moderate (% Of #)	Middle (% Of #)	Upper (% Of #)	NA* (% Of #)
Geographies (Tracts)	7	0.0	0.0	100.0%	0.0	0.0
Population by Income Level of Geography	19,252	0.0	0.0	100.0%	0.0	0.0
Family Distribution by Income Level of Geography	5,410	0.0	0.0	100.0%	0.0	0.0
Owner-Occupied Housing Units by Income Level of Geography	11,562	0.0	0.0	100.0%	0.0	0.0
Businesses by Income Level of Geography	1,141	0.0	0.0	100.0%	0.0	0.0
Distribution of Families by Income Level Throughout AA	5,410	16.8%	20.8%	24.8%	37.6%	0.0
Businesses by Revenue Level	Revenues <= 1 Million 89.5%	Revenues > 1 Million 5.1%		Revenues not Reported 5.4%		
HUD Adjusted Median (ADM) Family Income 2003 Non-MSA <ul style="list-style-type: none"> • Low Income (below 50% of ADM) • Moderate Income (50 to 79.99% of ADM) • Middle Income (80% to 119.99% of ADM) • Upper Income (120% and above ADM) Households Below the Poverty Level	= \$48,300 = \$0 - \$24,149 = \$24,150 - \$38,639 = \$38,640 - \$46,367 = \$46,368 - above = 798	Unemployment Rate: Dec. 2003 United States Michigan Benzie County Manistee County		= 5.4% = 7.1% = 9.3% = 8.6%		

(*) The NA category consists of geographies that have not been assigned an income classification.

Data Sources: 2000 U.S. Census; US Department of Labor. Dun and Bradstreet 2003.

There are 10 financial institutions serving the Counties of Manistee and Benzie based on a June 30, 2003 FDIC deposit market share report. There are two regional banks and eight community banks. The AA also has a number of credit unions. West Michigan NB&T is ranked eighth with a 4.5 percent market share based on deposits.

Local economic conditions for the Counties of Benzie and Manistee are considered stable. However, these counties have experienced higher unemployment compared to the State of Michigan as a whole. The December 2003 unemployment rate for Benzie County was 9.3 percent and 8.6 percent for Manistee County, which compare unfavorably to the State of Michigan unemployment rate of 7.1 percent. The loss of manufacturing jobs going back to the 1980s has resulted in these areas having a higher unemployment rate than the State of Michigan. In addition, employment in the area is seasonal being tied to tourism and agriculture. We contacted two housing related organizations in the AA to better assess the community needs. Both contacts indicated the greatest need in the community is affordable housing. Local housing prices prevent many low- and moderate-income individuals and families from being able to purchase a home. These contacts indicated there is a need for affordable new housing in the

community. One contact indicated that credit counseling by banks would better help low- and moderate-income people qualify for home mortgages.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

West Michigan NB&T's CRA performance was based on five main performance factors: loan-to-deposit ratio, lending in the AA, loans to borrowers of different income and businesses of different sizes, geographic distribution, and consumer complaints. Based on these factors West Michigan NB&T exhibited a satisfactory record of addressing the credit needs of its AA. This is supported by a good record of lending to borrowers of all income levels, and businesses of different sizes. The bank has a strong performance of lending to low-and moderate-income people and a good performance of lending to small businesses. The bank's quarterly average loan-to-deposit ratio over the evaluation period was found to be less than reasonable. West Michigan NB&T's loan-to-deposit ratio is well below other local banks. This is somewhat mitigated by the fact that West Michigan NB&T experienced a large increase in deposits over the past two years. In addition, the bank's lending activity is restricted by the loan size it can offer due to its size and capital level. A majority of the bank's loans was found to be within its AA based on a loan sample. The geographic distribution of these loans reflected a reasonable dispersion throughout the AA.

Loan-to-Deposit Ratio

West Michigan NB&T's loan-to-deposit ratio is less than reasonable. The bank's quarterly average loan-to-deposit ratio since the prior CRA evaluation is 58.3 percent. This represents a low ratio based on the AA needs and the performance of peer banks. The average loan-to-deposit ratio at the prior CRA evaluation was 69.0 percent. This evaluation disclosed that there are opportunities for the bank to increase its lending activity. The quarterly average loan-to-deposit ratio of four community banks in the AA for calendar years of 2002 and 2003 ranged from 76.5 percent to 85.6 percent.

West Michigan NB&T's low loan-to-deposit ratio is partly due to an influx of deposits over the past two years. The bank experienced an increase in deposits from January 1, 2002 to December 31, 2003 of \$3.3 million or 16.8 percent. This has resulted in the loan-to-deposit ratio to fall to 43.4 percent as of December 31, 2003. The bank's total assets and capital level limits the size and risk exposure of loans the bank can make. Management is evaluating alternative ways to increase the bank's lending activity.

Lending in Assessment Area

A majority of loans were made within the bank's AA based on a sampling of loans. This represents an adequate performance of lending in the AA. As illustrated in Table 3 below 70.0 percent of the number of loans and 69.1 percent of the dollar amount of loans sampled were made in the bank's AA. This reflects an adequate performance of lending in the AA.

Loan Product	Loans in Sample		Loans In AA		Loans Outside AA	
	#		#	%	#	%
	\$		\$	%	\$	%
Commercial/Business Loans	25		18	72.0%	7	28.0 %
	\$2,945,350		\$2,142,350	72.7%	\$803,000	27.3 %
Single Family Mortgage Loans	25		17	68.0%	8	32.0 %
	\$1,912,700		\$1,216,200	63.6%	\$696,500	36.4%
Total	50		35	70.0%	15	30.0%
	\$4,858,050		\$3,358,550	69.1%	\$1,499,500	30.9%

Data Source for Origination Data: Bank loan files.

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

West Michigan NB&T has demonstrated a good record of lending to borrowers of all income levels, and to businesses of different sizes. The two primary loan products of the bank are single-family mortgage loans and commercial/business loans. A loan sample of single-family mortgage loans from within the AA disclosed a strong record of lending to low- and moderate-income borrowers (see Table 4). Based on a loan sample, 35.3 percent of single-family mortgage loans were to low-income borrowers and 29.4 percent were to moderate-income borrowers. This compares favorably with demographic information, which disclosed 16.8 percent of families in the AA are low-income and 20.8 percent are moderate-income.

# and \$ of Loans in Sample that were made within the assessment area and included current income information.	Loans to Low Income Borrowers		Loans to Moderate Income Borrowers		Loans to Middle Income Borrowers		Loans to Upper Income Borrowers	
	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%
17	6	35.3 %	5	29.4 %	2	11.8 %	4	23.5 %
\$1,216,200	\$321,700	26.5%	\$247,500	20.4%	\$211,000	17.3%	\$436,000	35.8%
Demographic Data of the AA –Families by Income Category								
# and % Families	910	16.8%	1,124	20.8%	1,344	24.8%	2,032	37.6%

Data Source for Origination Data: Bank loan files.

Data Source for Demographic Data: 2000 U.S. Census Data

The bank was found to have a good record of lending to small businesses when compared to the AA demographics. Small businesses are defined as having annual revenues of \$1 million or less. The loan sample of 17 commercial loans found 88.9 percent of the number of loans and 90.2 percent of the dollar amount was to small businesses. These percentages are in line with the demographic information, which indicates that 89.5 percent of businesses (including farm businesses) in the AA had revenues of \$1 million or less.

Revenue Size of Businesses	Percentage of the bank's Distribution of Loans to Businesses	Percentage of Businesses in Each Revenue Category
\$1 million or under	88.9%	89.5%
Over \$1 million	11.1%	5.1%
Not Reported	0.0%	5.4%
Totals	100.0%	100.0%

Data Source: Sample of 17 commercial loans made in the bank's AA; 2000 US Census Data.

Geographic Distribution of Loans

West Michigan NB&T's geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank's AA contains no low- or moderate-income tracts. The loan sample of business and residential loans disclosed loans were made in all tracts in the AA. A detailed breakdown of loans made in each tract was not provided in this report in light of the fact that the loan sample disclosed loans have been made in every tract in the AA and there are no low- or moderate-income tracts in the AA.

Community Development Loans and Services

Community development loans and services had a favorable impact on the bank's CRA rating. During the evaluation period the bank participated in the construction financing of six single-family homes to low- and moderate-income borrowers through the Michigan State Housing Development Authority (MSHDA). West Michigan NB&T also made a loan to Munson Mobile Imaging for the finance of a mobile medical service. This program provides medical service to communities and individuals that are unable to obtain transportation to a hospital or medical office. The majority of people that use this service are low- and moderate-income.

The President of West Michigan NB&T has provided financial expertise to various economic groups to help bring jobs and businesses to the community. This includes the Frankfort Industrial Development Corp. and the Traverse Bay Economic Development Corp. President Foster helped start the Traverse Bay Economic Development Corp. and has served as a board and executive committee member. This organization has a \$1 million fund to provide loans/financing to bring businesses to the area, and created the HomeStretch Non-Profit Housing Corp. This organization works with MSHDA to provide affordable housing to the area. The President and at least one board member has been active in trying to bring affordable housing to the community by providing information to local organizations.

Responses to Complaints

There was no CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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