



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 30, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Empire National Bank
Charter #14934
1227 East Front Street
Traverse City, Michigan**

**Office of the Comptroller of the Currency
Kalamazoo Duty Station
4341 South Westnedge, Suite 2108
Kalamazoo, Michigan 49008**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Empire National Bank** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institutions' CRA performance based on an examination conducted as of **May 30, 1997**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The Purpose of the Community Reinvestment Act of 1977 (12 USC 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate- income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated:

OUTSTANDING RECORD OF MEETING COMMUNITY CREDIT NEEDS.

The purpose of CRA is to ensure that financial institutions help meet the credit needs of their local communities. We rated this institution's CRA record as Outstanding because:

- The bank is a leader in ascertaining and helping meet community credit needs through traditional and innovative products;
- The bank's volume of residential mortgage loans is outstanding and represents a significant portion of the mortgages originated within its assessment area; and
- The bank is a strong originator of small business loans throughout its community.

Bank Profile

Empire National Bank (Empire) is a \$401 million bank located in Traverse City, Michigan. The bank is a wholly owned subsidiary of Empire Banc Corporation, a one bank holding company. As of March 31, 1997, the bank had total loans of \$282 million and a loan to deposit level of 79%. The bank operates ten full-service banking offices and three off-site ATM's. The bank provides a full range of retail and commercial banking products, as well as trust and brokerage services.

The bank has a strong real estate lending focus for residential and commercial purposes. Real estate loans as of March 31, 1997 comprise 79% of the loan portfolio compared to 64% at year end 1993. According to the March 31, 1997 Report of Condition, the bank's loan portfolio breakdown was as follows:

Table 1 - Loan Portfolio - March 31, 1997		
	\$ (000's)	%
Commercial, Commercial Real Estate, Industrial, and Business Loans	\$124,679	44.3%
Consumer Loans	\$31,553	11.2%
Residential & Multi-Family Mortgages	\$124,069	44.0%
Farm Related Loans	\$549	.2%
Other Loans	\$893	.3%

Total Loans Outstanding	\$281,743	100.0%
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The Michigan financial market is highly competitive. Empire competes with a large number of financial and non-financial institutions. Some of the larger financial institutions with offices located within Empire’s market include NBD Bank, First of America, and Old Kent Bank. Numerous smaller financial institutions and mortgage companies also operate in various parts of Empire’s marketplace. Grand Traverse County is the core of the bank’s market. It contains a majority of the population within the community and is the source of almost 70% of the bank’s deposits. Empire’s deposit market share ranks second among financial institutions in three of the counties it operates in. Empire is the deposit market share leader in Leelanau County.

Community Profile

Empire’s delineated community is Grand Traverse, Leelanau, Kalkaska and Crawford Counties located in the northwestern corner of the lower peninsula of Michigan. Traverse City, Leland, Kalkaska and Grayling are the largest cities and county seats of their respective counties. The counties are not located in a Metropolitan Statistical Area (MSA).

Traverse City is the economic and retail center of northwest Michigan. It is the largest city in northern Michigan. Grand Traverse and Leelanau County benefit from the proximity to water, creating a strong tourism trade. Kalkaska and Crawford Counties are less densely populated with large portions of the counties consisting of government-owned forest land.

The community, according to business and 1990 Census data obtained from CRA WIZ, consists of 31 block numbering areas (BNA) - one moderate-income, 23 middle-income, seven upper-income areas. The one moderate-income BNA is located in Crawford County. The area’s Median Family Income (1990) of \$29,742 exceeds the Michigan non-MSA Median Family Income of \$27,894. The updated non-MSA Michigan Median Family Income average for 1996 is \$33,800. Additional regional data is presented in Table 2 and 3.

Table 2 - Regional Demographic Data					
County	Grand Traverse	Leelanau	Kalkaska	Crawford	Total
# of BNA’s	15	6	5	5	31
Population	64,273	16,527	13,497	12,260	106,557
Total Households	24,035	6,312	4,958	4,430	39,735
# of LMI Household	6,754	1,878	2,046	1,860	12,538
Median Family Income- 1990	\$34,259	\$32,467	\$24,295	\$24,419	\$29,742

Median Housing Value - 1990	\$71,700	\$76,800	\$44,100	\$43,720	\$58,400
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The local economic conditions are generally good and reflective of the overall strong Michigan economy. Unemployment is lowest in Grand Traverse and Leelanau where it approximates the state average. Employment options are much lower in Kalkaska and Crawford and unemployment typically exceeds the state average. The retail trade, service industries (medical, professional, tourism) and construction are the largest employment categories in the area. While the area has some large employers, 81% of area's businesses have less than ten employees and 76% have sales volume of less than one million dollars.

Table 3 - Regional Business Data					
County	Grand Traverse	Leelanau	Kalkaska	Crawford	Total
# of businesses	3,783	1,080	486	383	5,732
# of farms	88	61	8	4	161

Reasonableness of Delineated Community

- **The bank's delineated community is reasonable and does not arbitrarily exclude low- and moderate-income areas.**

Empire's delineated community incorporates the four county area previously described. It is based upon the bank's effective service area. The delineation was modestly changed in 1996 to eliminate partial areas located outside of the counties in which Empire has branch facilities. The delineation's reasonableness is internally assessed annually by management. A majority of the bank's loans (see table 6) and deposits are within the delineated community.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- **Empire has effectively ascertained and responded to community credit needs.**

Empire's Board and management are actively involved in community activities. They ascertain community banking and credit needs through their direct contact with members of the community. Primary means of community involvement include:

- * An ongoing officer call program. Bank officers regularly make business development and personal banking calls to ascertain credit needs and promote the bank's ability to meet those needs.
- * Bank participation in local, private and governmental community development organizations. Some of these organizations promote business recruitment, retention and expansion, including the Grand Traverse County Planning Commission, the Traverse City Economic Development Corporation, the Traverse Area Industrial Fund and Traverse Bay Enterprise Forum.
- * Ongoing contact with local Realtors, developers and government agencies promoting affordable housing. Bank officers participate in efforts to increase the local supply of affordable housing through the Traverse City Housing Commission. Bank officers also participate in the Home Start program of Board of Realtors which provides equity funding for low- and moderate-income borrowers. Additionally, Empire has mortgage originators promoting bank products and ascertaining community housing needs through ongoing contact with builders, developers and Realtors.
- * Sponsoring and participating in housing- and business-related credit seminars. Since its most recent CRA examination in 1994, Empire has been a sponsoring bank and provided credit counseling to prospective small business owners at the Business Expo. The bank has also been a sponsoring bank and provided credit counseling for prospective low- and moderate-income home buyers at the Home Expo and the Home Buyers Fair. Additionally, mortgage lenders have conducted credit seminars to inform home buyers and manufactured home dealers of home loan programs offered by the bank.
- * A working relationship with the Grand Traverse Band of Ottawa and Chippewa Indians. Empire maintains an ongoing dialogue concerning tribal credit and service needs with the tribe's leadership. The bank has worked with government agencies and tribal leadership to offer mortgage loan products to members of the tribe.

Empire has identified several community needs through these efforts. Credit needs that have been identified include home rehabilitation loans; residential mortgages, including programs for helping first time home buyers; and small business loans. The bank determined that educational programs were needed in the community because many people were uninformed about bank services and loan and deposit programs.

Area leaders have also expressed the desire to increase the area's manufacturing base in order to create higher wage jobs. Many of the area service employment opportunities provide only limited wages.

In response to identified community needs, management and the Board provide leadership and expertise to several community development organizations. The bank offers several special loan products (See Assessment Factor J) and sponsors various educational efforts.

Assessment Factor C - The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- **The Board of Directors and management are actively involved in the bank's CRA activities.**

Empire's CRA activities are supervised by the Board. Management reviews and analyzes the bank's CRA performance. The Board annually receives a CRA performance summary along with quarterly updates. The Board also periodically reviews information about community credit needs and the bank's marketing program. Additionally, Board members are actively involved in many of the activities used to ascertain community credit needs and promote bank products and services.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- **Empire effectively informs the entire community of bank products and services.**

Credit products are marketed throughout the community. Empire primarily uses print media and direct officer calling efforts to market credit services. Empire also uses direct mailing. In 1996 the bank conducted a direct mail campaign to promote mobile home lending. The bank uses radio and television primarily for image advertising. These efforts effectively inform the community of the bank products and services available.

Direct contacts with the community is a key component of the bank's marketing effort. Special attention has been directed toward calling on manufactured housing dealers. Manufactured housing provides an affordable housing option and Empire has worked to inform these dealers about the bank's ability to provide mortgage financing.

Contacts with the community through the Business and Home Expos also provide Empire with the opportunities to inform the public about loan products and services and provide counseling.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans and small business loans.

- **Empire's lending reflects an excellent responsiveness to the credit needs of its community. Lending activity is significant and includes a strong focus on residential mortgage and small business needs.**

The bank has consistently demonstrated its ability to meet the community's credit needs through its loan origination efforts. Empire's lending activity is reflected by the following key observations:

- A consistently high volume of loan activity, averaging 80% loans to deposits over the last three years.
- A leadership position in the origination of residential mortgages.
- A significant volume of small business loan activity.

Loan Volume

Empire is a consistently strong generator of loans. The bank offers a wide variety of consumer, mortgage and commercial lending products. Table 1 displays the distribution of the bank's loan portfolio. The bank's March 31, 1997 loan to deposit ratio of 79% approximates its average during the past three years. This level exceeds the national average for similarly sized banks and approximates the average of Michigan banks with assets between \$200 and \$600 million. In addition, during 1996 the bank sold \$60 million of residential mortgages on the secondary market to Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae).

Empire is a leader in the origination of several special loan programs. See Assessment Factor J for further information.

Residential Real Estate Lending

The following table summarizes the volume of Empire's residential real estate lending year to date, 1996 and 1995. In addition to the bank's origination of home mortgages, a substantial volume of real estate secured instalment and home equity loans has been generated.

Table - 4 Residential Real Estate Lending Activity			
Loan Products	1997 Volume 4 mo. YTD (#s)	1996 Volume (#s)	1995 Volume (#s)
1-4 Family REMs: Construction, Purchase, & Refinance,	273	1,019	793

Home Improvement and RE secured instalment loans	262	691	Information not available
Equiline	123	605	Information not available

Empire is the leader in residential real estate lending within its community. According to bank records and information management obtained from four other large, area banks (Home Mortgage Disclosure Act Information does not exist for this area), Empire has had the largest market share for home mortgage lending during the past two years.

Small Business Lending

Empire is a significant lender to small businesses. In 1996 the bank originated 469 loans to businesses in loan amounts of \$1 million or less. The majority (372) of these loans were for amounts of \$100,000 or less with an average loan size of \$32,000. Table 5 shows the number and amount of small business lending based on the customer’s loan size. Small business lending can also be evaluated based on the borrower’s revenue. A majority of the bank’s reported small business loans are to businesses with revenues of \$1 million or less. The bottom part of Table 5 indicates the number and amount of these loans. Comparable peer data information is not yet available.

Table 5 Loan Counts and Amounts by Loan Value Category				
Loan Value Size Category	Count		Amount	
	#	%	\$(000's)	%
<= \$100,000	372	79.3%	12,027	30.8%
>\$100,000 and <= \$250,000	61	13.0%	10,163	26.1%
> \$250,000 and <=\$1,000,000	36	7.7%	16,804	43.1%
Total	469	100%	38,994	100%
Loan & Revenue Size				
<= \$1,000,000	341	72.7%	29,280	75.1%

Assessment Factor J - The institution’s participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses or small farms.

- **Empire is a leader in governmentally-insured loan programs designed to provide affordable housing and small business financing.**

Empire offers the following government-sponsored loan programs to help meet community real estate credit needs: USDA Single Family Rural Housing Guarantee Program (formerly Farmers Home Administration), and Michigan State Housing Development Authority (MSHDA). Small business financing is available with Small Business Administration (SBA) guaranties.

The USDA Rural Housing program provides zero down-payment home financing based on certain income limits and geographic areas. For fiscal year end September 1996, Empire ranked first among banks and third overall in Michigan with 70 USDA guaranteed home mortgages. This volume placed Empire among the top one hundred such originators in the country.

The MSHDA Mortgage Program provides low down-payment mortgages and the MSHDA Mortgage Credit Certificate (MCC) provides for a federal income tax credit to home buyers thereby boosting their income to qualify for a loan. Empire granted 17 MCC's (\$942,510) in 1996 and 73 MCC's (\$3,857,000) in 1995.

The SBA program allows for bank loans to be guaranteed up to 90% by the government. Empire is a SBA Preferred Lender which allows for expedited SBA applications. Empire offers regular SBA loans and the SBA "Low Doc" which uses a simplified application process for smaller loans. For the SBA fiscal year 1996, Empire ranked 13th in the State in loan approvals with 20 credits totaling \$2.3 million. This ranking compares favorably given Empire's overall asset size. A total of 44 SBA loans were approved in the four county delineated community served by Empire.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

- **Empire effectively extends credit to all areas of its delineated community.**

Analysis of the distribution of the bank's loan portfolio indicates lending activity is dispersed throughout the delineated community and to borrowers of different income levels.

Table 6 summarizes the distribution of the bank's mortgage and small business lending within the delineated community. The mortgage information was derived from a sample of 55 home loans made in 1996. The small business data is from the bank's 1996 CRA Data Listing Report. It shows that a substantial majority of the bank's small business lending (loans < = \$1 million) occurred within the delineated community. When compared to small business lending, the percentage of mortgage lending within the community is lower due to the number

of mortgage applications that Empire receives from counties that are adjacent to the delineated community.

Analysis of where the loans made within the community are located shows that Empire’s lending is disbursed throughout the delineated community. This includes mortgage and small business originations in the one BNA that is designated as moderate-income.

Lending to borrowers of different income levels is reasonable. The sample of home mortgage loans indicates that the bank readily extends credit to borrowers of low- or moderate-income levels (LMI).

Table 6 - 1996 Distribution of Loans						
	Lending Within the Community		Distribution of Loans by Area		Distribution of Loans to LMI	
	# of Loans	%	# of BNA's with Loans	% of all BNA's	# of Loans	%
Sampled Mortgage Loans within Delineated Community	37	67%	21	68%	8	22%
Small Business Loans within Delineated Community	444	94%	28	90%		

Assessment Factor G - The institution’s record of opening and closing offices and providing services at offices.

- **Empire’s banking offices are readily accessible to all segments of the community.**

Empire has ten full service banking offices and three offsite ATM’s locations within its community. The office locations are readily accessible to all segments of the community. Banking Office locations are: Grand Traverse County - 4; Leelanau County - 3; Crawford County - 1; and Kalkaska County - 1. In addition, the three offsite ATM’s and the bank’s Customer Service Center are located in Grand Traverse County. This reflects Grand Traverse County’s larger population and Traverse City as the regional destination point for many area residents. The banking offices in Crawford and Kalkaska Counties are each located in the primary city of that county and, therefore; are able to reasonably service the respective county.

Business hours and services are appropriate. Business hours vary slightly at some offices in order to accommodate customer needs. Saturday drive-through banking is available in each county. Several offices also have Saturday lobby hours and eight of the ten offices have ATM's. Loan services can be obtained through all offices. In addition, credit applications are taken over the telephone and after hour appointments are available.

No banking offices were opened or closed during the time period covered by this review. Six of the offices are located in middle-income areas and four in upper-income areas.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- **Empire does not have any practices that would tend to discourage credit applications.**

The bank affirmatively solicits applications from its entire community. It has established practices and policies to ensure compliance with antidiscrimination and fair lending regulations. The lending staff has received fair lending training. The bank performs an annual independent fair lending review to ensure applicants receive equal treatment. The review includes a statistical analysis of application approval and denial rates for different racial groups to identify disparate treatment of any racial groups.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **Empire is in compliance with the substantive provisions of antidiscrimination laws and regulations. We did not note any evidence of discrimination or disparate treatment on a prohibited basis.**

During our examination, we compared approved and denied home mortgage applicants to see if all applicants have an equal opportunity to obtain credit. We compared denied Native American applicants to approved white applicants. We found that both groups were treated similarly.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- **Empire participates in various community development activities.**

Empire directs resources to various community development and redevelopment projects within the community. These resources include various lending activities and grants. The majority of these activities occur within Grand Traverse and Leelanau Counties.

Community development activities include a \$3 million loan commitment to the Grand Traverse Band (GTB) of Ottawa and Chippewa Indians. Empire has also worked with the GTB to structure innovative means of providing credit to tribal members. Through one program, tribal members on Indian reservation land can obtain new home financing. Empire also worked with the GTB to provide a mortgage loan that used a combination of bank funds, tribal funds and a unique assignment of tribal per capita disbursements.

Grants and other assistance are provided to organizations involved in community development or community services targeted towards low- and moderate-income residents. Utilizing its membership in the Federal Home Loan Bank Board, Empire has obtained grant money for Habitat for Humanity chapters. Empire has also made direct grants to various Habitat for Humanity chapters, the Community Commitment Fund, the Munson Healthcare Foundation, United Way and others.

Empire provided financing for the development of an affordable housing plat near the Grand Traverse Crossing development.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- **Empire's efforts to meet community credit needs are consistent with its size and resources.**

There are no legal impediments or other factors that hinder the bank's efforts to meet community credit needs. The reader is referred to the bank and community profiles at the beginning of the public disclosure for further details.

Assessment Factor L - Any other factors that, in management's judgment, reasonably bear upon the extent to which the bank is helping to meet the credit needs of its entire community.

- **Empire is actively involved in many other activities that contribute to community development.**

Community involvement is a priority of management. Bank officers and employees are members of various community organizations and participate in a wide range of community development and civic programs. Many of these activities help educate the public on credit related topics. Empire employees have often played a key role in the development and growth of these organizations. Following is a sample of such activities :

- Small business development via technical support and assistance to the Traverse City Economic Development Corporation, the Traverse Area Industrial Fund and Traverse Bay Enterprise Forum.
- Home mortgage awareness, counseling and technical assistance to the Traverse City Housing Commission, Home Start and the Grand Traverse Band of Ottawa and Chippewa Indians.
- Consumer finance education via credit counseling, work with Jr. Achievement and school classrooms.
- Technical and financial assistance to the Munson Healthcare Foundation which promotes health care issues including activities targeted toward low- or moderate-income individuals.