



PUBLIC DISCLOSURE

November 14, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of St. Ignace
Charter Number 3886

132 N. State Street
St. Ignace, MI 49781

Office of the Comptroller of the Currency

High Pointe on Mayfair
1200 North Mayfair Road
Suite 200
Wauwatosa, WI 53226-3282

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 supporting the institution's rating include:

- A substantial majority of loan originations are made within the bank's assessment area (AA).
- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the AA.
- The borrower distribution of home mortgage and commercial loans reflects reasonable penetration among borrowers of different incomes and revenue levels.
- The geographic distribution of home mortgage and commercial loans reflects reasonable dispersion among geographies in the bank's AAs.

SCOPE OF EXAMINATION

We evaluated The First National Bank of St. Ignace's (FNB St. Ignace) Community Reinvestment Act (CRA) performance under the Small Bank Lending Test. In evaluating the bank's lending performance, we reviewed data for the bank's primary loan products, which are residential real estate loans and commercial loans.

The evaluation period covers the period since the date of the previous CRA exam, April 19, 2010, through November 14, 2016. The Lending Test evaluated loans originated between January 1, 2014 and November 7, 2016.

We selected a sample of residential mortgage loans and commercial loans from bank generated reports in order to assess the bank's lending performance.

The analysis of the Lending Test was performed using the most recent available demographic data. Conclusions were based on residential real estate and commercial loan performance in the bank's assessment area. Conclusions were based on analysis of residential real estate and commercial loans because these products represent the majority of the bank's lending activities by volume of loans.

DESCRIPTION OF INSTITUTION

FNB St. Ignace is a \$281 million bank with its main office located in St. Ignace, MI, a middle income census tract (CT). The bank maintains seven full-service locations, consisting of a main office and two other branches located in St. Ignace, MI; as well as additional branches in Cedarville, MI; Mackinac Island, MI; Naubinway, MI; and Newberry, MI. All branches are located in middle income CTs. A 24-hour ATM is located at each office.

The bank's business strategy is to serve the credit and depository needs of their local community. The bank offers a variety of traditional community bank products and services including commercial, real estate, and consumer loans and various deposit products. The bank's primary loan product is commercial loans, which is complimented by home mortgage, consumer, and agricultural loans. As of September 30, 2016, the loan portfolio by dollar volume consists of: commercial loans (59 percent), residential real estate loans (33 percent), consumer loans (5 percent), and other loans (3 percent).

There are no legal or financial impediments limiting the bank's ability to meet the credit needs of its AA. FNB St. Ignace's last CRA evaluation, dated April 19, 2010 resulted in a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB St. Ignace has one AA located in predominantly rural areas in the Upper and Lower Peninsulas of Michigan. In the Upper Peninsula, the AA includes all CTs located in Mackinac and Luce Counties, along with CTs located in southeastern Chippewa County. In the Lower Peninsula, the AA includes CTs in the north and northeastern portion of Emmet County and northwestern Cheboygan County. The AA consists of 18 CTs; zero low-income (0 percent), two moderate-income (11.11 percent), 12 middle-income (66.67 percent), zero upper-income (0 percent), and four (22.22 percent) designated NA income (demographic information was not available for these CTs as of the date of this exam). The AA consists of three Michigan state prisons: Newberry Correctional Facility (Luce County), Chippewa Correctional Facility (Chippewa County), and Kinross Correctional Facility (Chippewa County). Mackinac, Cheboygan, Luce, and Emmet Counties are designated as distressed or underserved, and Chippewa County is designated as distressed. The AA complies with regulatory requirements and does not arbitrarily exclude low or moderate income geographies.

According to 2010 census data, the total population of the bank's AA is 39,412, which is comprised of 10,062 families. Income levels for these families are as follows: 2,066 low-income families (20.53 percent), 2,058 moderate-income families (20.45 percent), 2,285 middle-income families (22.71 percent) and 3,653 upper-income families (36.31 percent). Of the 10,062 families in the AA, 10.90 percent are below the poverty level. The 2010 U.S. Census weighted average of median family income (MFI) is \$49,045 for Michigan. The 2015 Department of Housing and Urban Development (HUD) updated MFI is \$54,700 for Michigan.

The local economy has stabilized, although it remains subject to seasonal tourism volatility. Tourism continues to be the primary economic activity in the area. Major employers in the area include Sault Ste. Marie Tribe of Chippewa Indians, Mackinac Straits Area Hospital, and the Grand Hotel. The August 2016 unemployment rate for Cheboygan County was 4.0 percent, Chippewa County was 6.0 percent, Emmet County was 4.1 percent, Luce County was 4.4 percent, and Mackinac County was 3.1 percent. This compares to the 4.9 percent unemployment rate for the state of Michigan as of August 2016. According to the Bureau of Labor Statistics, from April 2010 through

August 2015, the aggregated unemployment rate for the AA averaged 10.6 percent. The state's unemployment rate for the same period averaged 8.3 percent. Unemployment rates within the AA are seasonal, with higher unemployment during the fall and winter seasons and lower unemployment during the spring and summer tourist season. The effect is particularly pronounced in Mackinac County where unemployment reached 17.8 percent in January 2016, and then decreased to 3.1 percent in August 2016. There are 40.86 percent of households located in the AA that receive social security benefits and 5,384 persons (13.66 percent of the population) institutionalized in Group Quarters. Federal or State governments own 53 percent of the land located in Mackinac County. The unique economic and demographic makeup of the AA could have an adverse impact on loan demand in the area.

Competition in the area is moderate and stable. The bank's competitors include branches of large banks, community banks, and credit unions. According to the June 30, 2016 FDIC market share data, FNB St. Ignace has total deposits of \$224.9 million with a market share of 12.85 percent, raking them first amongst all financial institutions operating in the AA. The balance of the market share is divided among 13 other institutions with market shares ranging from 0.95 percent to 12.04 percent.

In assessing the bank's CRA performance, we contacted a local organization to determine the community's profile and the performance of local financial institutions. The contact stated that local financial institutions are meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

The FNB St. Ignace LTD ratio is lower than its peer banks; however, given the bank's sale of loans on the secondary market, is deemed reasonable for the bank's size, financial condition, and credit needs of the community. The bank's quarterly LTD ratio averaged 39.19 percent over the 26 quarters from June 2010 to September 2016. The bank ranks fifth in a peer group which includes four other similarly situated banks, with peer bank LTD ratios ranging from 51.73 percent to 95.17 percent. The banks in this peer group have total assets ranging from \$107.70 million to \$290.72 million.

FNB St. Ignace originates residential real estate loans that are immediately sold on the secondary market. The bank had outstanding principal balances of \$25.62 million in loans serviced for others as of 9/30/16. This represents another 10.20 percent of total deposits that is not captured in the LTD ratio noted above.

Lending in Assessment Area

The bank originates a substantial majority of its loans to borrowers and businesses within its AA. Results of a random sampling of the bank's primary loan products show that 91.94 percent of the total number of loans and 88.08 percent of loan volume were originated within the bank's AA.

Lending in Assessment Area										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
RE - Home Purchase	23	100.00%	0	0.00%	23	\$1,684	100.00%	\$0	0.00%	\$1,684
RE - Home Refinance	6	75.00%	2	25.00%	8	\$589	76.99%	\$176	23.01%	\$765
RE - Home Improvement	1	100.00%	0	0.00%	1	\$80	100.00%	\$0	0.00%	\$80
Commercial Loans	27	90.00%	3	10.00%	30	\$2,191	83.31%	\$439	16.69%	\$2,630
Totals	57	91.94%	5	8.06%	62	\$4,544	88.08%	\$615	11.92%	\$5,159

Source: Sample of 62 bank records from 2014, 2015, and 2016 (verified by examiners).

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

The overall income distribution of borrowers reflects reasonable penetration among residential real estate loans and commercial loan customers. The random sample for this review included the bank's primary loan products, which are residential real estate loans and commercial loans.

The bank's borrower distribution of residential real estate loans within the AA reflects reasonable penetration. Low income borrowers represent 20.53 percent of the AA families and the bank originated 6.67 percent of its residential real estate loans to these borrowers. While the ratio of bank originations of residential real estate loans to low income borrowers is much lower than the demographic, it is considered reasonable due to mitigating factors driving this ratio. According to the most recent demographic information, 10.90 percent of families within the AA are below the poverty level. These borrowers would not qualify for conventional financing. Of the assessment demographics, 13.17 percent of the population are comprised of Persons in Correctional Institutions, also representing borrowers that would not qualify for conventional financing. Moderate income families represent 20.45 percent of AA families, and the bank originated 20.00 percent of its residential real estate loans to these borrowers. This is considered reasonable.

Borrower Distribution of Residential Real Estate Loans in Assessment Area									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	% of Number of Loans
% of Total	20.53%	6.67%	20.45%	20.00%	22.71%	23.33%	36.31%	46.67%	3.33%

Source: Sample of 30 bank records from 2014, 2015, and 2016 (verified by examiners) and U.S. Census demographic data.

The bank's borrower distribution to businesses within the AA reflects reasonable penetration. Businesses within the AA with annual revenues less than or equal to \$1 million represent 78.61 percent of total businesses. The bank's sampled loan data is in line with the demographic data, originating 62.96 percent by number and 79.08 percent by dollar amount of its total commercial loans to small businesses within the AA with annual revenues less than or equal to \$1 million.

Borrower Distribution to Businesses in Assessment Area				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	78.61%	3.94%	17.45%	100.00%
% of Bank Loans in AA by #	62.96%	11.11%	25.93%	100.00%
% of Bank Loans in AA by \$	79.08%	11.94%	8.98%	100.00%

Source: Sample of 27 bank records from 2014, 2015, and 2016 (verified by examiners) and U.S. Census demographic data.

Geographic Distribution of Loans

The geographic distribution of loans throughout the bank's AA reflects reasonable dispersion. Based on our sample of residential real estate loans, the bank originated 3.33 percent of loans to borrowers in moderate income CTs, which is less than the demographic information that reported 8.63 percent of owner occupied housing in the AA. However, we determined several factors that impacted the low level of lending to moderate-income census tracts. As of the 2010 census data, one of the moderate-income CTs was redesignated as middle-income. The moderate-income census tracts are not in close proximity to the bank's branches. Given the above factors, the distribution is reasonable.

Geographic Distribution of Residential Real Estate Loans in Assessment Area										
Census Tract Income Level	Low		Moderate		Middle		Upper		NA	
	% 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	% of AA Owner Occupied Housing	% of Number of Loans
% of Total	0.00%	0.00%	8.63%	3.33%	91.37%	96.67%	0.00%	0.00%	0.00%	0.00%

Source: Sample of 30 bank records from 2014, 2015, and 2016 (verified by examiners) and U.S. Census demographic data.

Based on our sample of commercial loans, the bank originated 3.70 percent of loans to businesses in moderate income CTs, which is less than the demographic information that reported 7.63 percent of businesses in the AA. Based on the same factors as noted above, this distribution is considered reasonable.

Geographic Distribution of Commercial Loans in Assessment Area										
Census Tract Income Level	Low		Moderate		Middle		Upper		NA	
	% 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	% of AA Businesses	% of Number of Loans
% of Total	0.00%	0.00%	7.63%	3.70%	92.37%	96.30%	0.00%	0.00%	0.00%	0.00%

Source: Sample of 27 bank records from 2014, 2015, and 2016 (verified by examiners) and U.S. Census demographic data.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank’s (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.