



## **PUBLIC DISCLOSURE**

July 08, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank of Michigan  
Charter Number #24637

348 West Michigan Avenue  
Kalamazoo, MI 49007

Office of the Comptroller of the Currency  
Cleveland Field Office  
200 Public Square, Suite 1610  
Cleveland, OH 44114-2301

**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.**

Major factors supporting the First National Bank of Michigan's rating:

- The bank's performance in lending to geographies of different income levels exhibits excellent dispersion.
- The bank's performance in lending to businesses of different sizes reflects reasonable penetration.
- The bank's loan-to-deposit ratio is reasonable.
- A majority of the bank's lending activity occurs within its assessment areas.

**SCOPE OF EXAMINATION**

Our office conducted a full-scope Community Reinvestment Act (CRA) examination of the First National Bank of Michigan (First National Bank), in order to assess the bank's record of meeting the credit needs of its entire community including low- and moderate-income areas. We used Small Bank CRA examination procedures to perform the examination. The evaluation under the Lending Test considered performance from January 1, 2012, through June 30, 2014 (lending evaluation period).

First National Bank's primary loan product during the evaluation period was business loans, and performance in regard to this product was given foremost consideration during this CRA examination. To evaluate the bank's business lending performance, we reviewed the bank's entire population of business loans originated between January 1, 2012, and June 30, 2014.

We utilized the 2010 U.S. Census data, information from the bank, OCC information, and information from members of the bank's community in order to determine the characteristics and credit needs of the bank's assessment areas.

**DESCRIPTION OF INSTITUTION**

First National Bank is an intrastate bank headquartered in Kalamazoo, Michigan. As of March 31, 2014, the bank reported \$340 million in total assets, \$31 million in Tier 1 capital, and \$261 million in gross loans (77 percent of total assets). First National Bank is a wholly owned subsidiary of First National Bancorp, Inc., a single-bank holding company.

The bank has four full-service branches, and four automated teller machines. Two of these branches were added during the evaluation period. A second branch in Kalamazoo, Michigan was opened on September 9, 2010, and a branch in Grand

Rapids, Michigan was opened on July 16, 2012. There have been no significant changes to the bank’s corporate structure, including merger or acquisition activities, since our last CRA evaluation.

First National Bank offers traditional banking products and services through its full service banking offices. The bank’s primary business strategy is business lending, and its primary lending product continues to be commercial real estate loans. The bank also offers residential real estate loans, commercial/industrial loans, and consumer installment loans. The following chart depicts First National Bank’s loan portfolio as of March 31, 2014.

First National Bank’s Loan Portfolio (as of March 31, 2014)		
Loan Category	Amount \$(000’s)	Percentage of Total Loans
Nonresidential Mortgage	151,150	58%
Commercial/Industrial - Non-mortgage	42,402	16%
Residential Mortgage (including 1-4 family construction)	29,093	11%
Commercial – Multifamily mortgage	22,757	9%
Home Equity Loans (revolving and closed end)	13,475	5%
Loans to Individuals/Other Consumer Installment	2,534	1%
Total	261,411	100%

Source: First National Bank of Michigan’s Report of Condition and Income (Call Report) dated March 31, 2014

There are currently no legal or financial circumstances that impede the bank’s ability to serve the credit needs of its assessment areas. First National Bank’s last CRA examination was dated March 2, 2009, and resulted in a “Satisfactory” rating.

## DESCRIPTION OF ASSESSMENT AREAS

First National Bank has two assessment areas, which are comprised of Kalamazoo and Kent Counties in the State of Michigan. Both of the assessment areas are within Metropolitan Statistical Areas (MSAs), are comprised of whole geographies, do not arbitrarily exclude low- or moderate-income areas, and meet the requirements of the CRA regulation. The Kent assessment area was added during July 2012, when the bank opened its Grand Rapids branch. Both assessment areas are described in more detail below. June 30, 2013, deposit data from the Federal Deposit Insurance Corporation (FDIC) showed that 33 depository institutions were operating 273 offices in the two-county area, and that First National Bank ranked fourteenth in deposits, with a 1.66 percent share.

When drawing our conclusions, we placed more weight on the bank’s performance in the Kalamazoo assessment area, as the bank did most of its lending within that

assessment area during the evaluation period. Furthermore, the Kent assessment area was not added until July 2012.

### **Kalamazoo Assessment Area**

The Kalamazoo assessment area consists of the 57 census tracts that comprise all of Kalamazoo County, which is part of the Kalamazoo, Michigan MSA - #26077. The assessment area has a population of just over 250,000 people as of the 2010 census. Of the assessment area's 57 census tracts, seven (12 percent) are low-income, eleven (19 percent) are moderate-income, twenty-six (46 percent) are middle-income, and thirteen (23 percent) are upper-income. First National Bank operates three full service offices (including the main office) in this assessment area, with two offices located in moderate-income census tracts.

The June 30, 2013, FDIC deposit report showed that there were 17 insured depository institutions operating 71 offices within this assessment area, with First National Bank ranked fourth in deposits with an 8.84 percent share. Competition in the assessment area is moderate, with other major competitors including PNC Bank (25.64 percent of deposits), Fifth Third Bank (21.46 percent of deposits), Bank of America (9.86 percent of deposits), Comerica Bank (8.54 percent of deposits), and Keystone Community Bank (5.96 percent of deposits).

The economic recession during the evaluation period did not affect the local area as severely as the State of Michigan as a whole. The area's annual unemployment rates were 7.1 percent in 2012 and 6.3 percent in 2013, below the statewide averages of 9.1 percent in 2012 and 8.8 percent in 2013. Major employers in the area include Pfizer, Bronson Hospital, PNC Bank, and Western Michigan University.

Based on our discussions with bank management and a member of the local community, there are opportunities to participate in community development activities within the assessment area. Contacts indicated that the largest credit needs within the assessment area include financing for low-income and affordable housing, as well as for the redevelopment/stabilization of low- and moderate-income areas.

### **Kent Assessment Area**

The Kent assessment area consists of the 128 census tracts that comprise all of Kent County, which is part of the Grand Rapids, Michigan MSA - #26081. The assessment area has a population of approximately 603,000 people as of the 2010 census. Of the assessment area's 128 census tracts, eleven (9 percent) are low-income, twenty-nine (23 percent) are moderate-income, fifty-four (42 percent) are middle-income, and thirty-four (26 percent) are upper-income. First National Bank operates one full service office in this assessment area, which is located in moderate-income census tract.

The June 30, 2013 FDIC deposit report showed that there were 26 insured deposit institutions operating 202 offices within this assessment area, with First National Bank

ranked twenty-fourth in deposits with a 0.13 percent share. Competition in the assessment area is moderate, with major competitors including Fifth Third Bank (23.19 percent of deposits), JP Morgan Chase (12.38 percent of deposits), and Huntington National Bank (9.91 percent of deposits).

The economic recession during the evaluation period did not affect the local area as severely as the State of Michigan as a whole. The area's annual unemployment rates were 6.7 percent in 2012 and 5.5 percent in 2013, below the statewide averages of 9.1 percent in 2012 and 8.8 percent in 2013. Major employers include Spectrum Health, Axios Inc., Meijer Inc., and Amway Corporation.

Based on our discussions with bank management and a member of the local community, there are opportunities to participate in community development activities within the assessment area. Contacts indicated that the largest credit needs within the assessment area include financing for low-income and affordable housing, as well as for the redevelopment/stabilization of low- and moderate-income areas.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**First National Bank of Michigan's performance under the lending test is satisfactory.**

The bank's loan-to-deposit ratio is reasonable, it makes a majority of its loans within its assessment areas, its record of lending to borrowers of different income levels (including low- and moderate-income) is reasonable, and its record of lending to geographies of different income levels is excellent. The borrower and geographic distribution components of the lending test received the most weight in our analysis.

### **Loan-to-Deposit Ratio**

**First National Bank's loan-to-deposit ratio is reasonable, and meets the standard for satisfactory performance.**

The bank's loan-to-deposit ratio is reasonable given its size, financial condition, and business focus, and the credit needs of its community. The loan-to-deposit ratio has averaged 89.72 percent since January 1, 2009, ranging from a quarterly low of 76.41 percent and a quarterly high of 101.02 percent. The loan-to-deposit ratio is consistent with that of other community banks of similar size and purpose. The average quarterly loan-to-deposit ratio for a custom peer group of banks with total assets between \$95 million and \$1.4 billion that were competing within the assessment areas was 89.62 percent during the same period of time.

### **Lending in Assessment Areas**

**A majority of First National Bank's lending activity has occurred within its assessment areas, which meets the standard for satisfactory performance.**

During the 30-month lending evaluation period, the bank originated 339 business loans totaling \$202.5 million. Of the 339 loans, 263 (77.6 percent) were to businesses within the bank's assessment areas. Based on dollar amount, \$138.8 million (68.5 percent) were to businesses within the bank's assessment areas. Both ratios are indicative of satisfactory performance. The table below illustrates the bank's level of business lending within its assessment areas.

<b>Business Lending within the Bank's Assessment Areas</b>				
<b>Geography</b>	<b>Number of Loans</b>	<b>Percentage of Total Loans</b>	<b>Amount (\$000's)</b>	<b>Percentage of Total Loans</b>
<b>Kalamazoo County Assessment Area</b>	<b>213</b>	<b>62.83%</b>	<b>\$89,893</b>	<b>44.38%</b>
<b>Kent County Assessment Area</b>	<b>50</b>	<b>14.75%</b>	<b>48,901</b>	<b>24.14%</b>
Other (Outside Assessment Areas)	76	22.42%	63,754	31.48%
Total	339	100.00%	\$202,548	100.00%

### **Lending to Businesses of Different Sizes**

**The bank's distribution of loans to businesses of different sizes reflects reasonable penetration, and meets the standards for satisfactory performance.**

#### **Kalamazoo Assessment Area**

The bank's distribution of business loans within the Kalamazoo assessment area reflects reasonable penetration among businesses of different sizes. This conclusion is based on a sample of 30 business loans originated during the lending evaluation period. Loans to businesses with annual revenues of \$1 million or less accounted for 50.0 percent of the business loans that the bank originated within the assessment area. This volume is reasonable compared to demographic data that shows that 73.7 percent of the assessment area's businesses have annual revenues less than or equal to \$1 million. Note that 20.6 percent of the assessment area's businesses did not report revenue, and 3.3 percent of the loans in our sample were to businesses that did not supply revenue data. The table below illustrates the bank's level of lending to business of different sizes.

Distribution of Loans to Businesses in the Kalamazoo Assessment Area				
Revenue (\$)	Number of Businesses	Percentage of Businesses	Number of Bank Loans	Percentage of Bank Loans
< .5 Million	13,022	69.33%	13	43.33%
>=.5 and <1 Million	821	4.37%	2	6.67%
>=1 and <25 Million	1,008	5.37%	14	46.67%
>=25 and <50 Million	42	0.22%	0	0.00%
>=50 Million and Above	18	0.10%	0	0.00%
Not reported	3,872	20.61%	1	3.33%

**Kent Assessment Area**

The bank’s distribution of business loans within the Kent assessment area reflects reasonable penetration among businesses of different sizes. This conclusion is based on a sample of 26 business loans originated during the evaluation period. Loans to businesses with annual revenues of \$1 million or less accounted for 53.9 percent of the business loans that the bank originated within the assessment area. This volume is reasonable compared to demographic data that shows that 72.8 percent of the area’s businesses have annual revenues less than or equal to \$1 million. Note that 20.3 percent of the assessment area’s businesses did not report revenue, and 19.2 percent of the loans in our sample were to businesses that did not supply revenue data. The table below illustrates the bank’s level of lending to business of different sizes.

Distribution of Loans to Businesses in the Kent Assessment Area				
Revenue (\$)	Number of Businesses	Percentage of Businesses	Number of Bank Loans	Percentage of Bank Loans
< .5 Million	31,545	68.33%	11	42.31%
>=.5 and <1 Million	2,054	4.45%	3	11.54%
>=1 and <25 Million	2,907	6.30%	7	26.92%
>=25 and <50 Million	147	0.32%	0	0.00%
>=50 Million and Above	129	0.28%	0	0.00%
Not reported	9,383	20.32%	5	19.23%

**Geographic Distribution of Loans**

**First National Bank’s geographic distribution of business loans within its assessment areas reflects excellent dispersion, including in low- and moderate-income areas, and exceeds the standard for satisfactory performance.**

**Kalamazoo Assessment Area**

The bank’s geographic distribution of business loans in the Kalamazoo assessment area reflects excellent dispersion throughout census tracts of different income levels. The percentage of business loans originated in low-income tracts approximates the percentage of assessment area businesses in those tracts, while the percentage of loans originated in moderate-income tracts exceeds the percentage of businesses in those tracts. These conclusions are based on all business loans originated during the review period. The table below illustrates the bank’s performance compared to the percentage of businesses in each census tract income category.

<b>Geographic Distribution of Loans to Businesses in the Kalamazoo Assessment Area</b>				
<b>Census Tract Income Category</b>	<b>Number of Businesses</b>	<b>Percentage of Businesses</b>	<b>Number of Bank Loans</b>	<b>Percentage of Bank Loans</b>
<b>Low</b>	<b>7</b>	<b>12.28%</b>	<b>26</b>	<b>12.21%</b>
<b>Moderate</b>	<b>11</b>	<b>19.30%</b>	<b>46</b>	<b>21.60%</b>
Middle	26	45.61%	87	40.85%
Upper	13	22.81%	54	25.35%
Total	57	100.00%	213	100.00%

**Kent Assessment Area**

The bank’s geographic distribution of business loans in the Kent assessment area reflects reasonable dispersion throughout census tracts of different income levels. The percentage of business loans originated in low-income tracts is low, but the limited number of businesses located in low-income tracts does not provide for significant lending opportunities. The percentage of loans originated in moderate-income tracts slightly exceeds the percentages of assessment area businesses located in those tracts. These conclusions are based on all business loans originated during the review period. The table below illustrates the bank’s performance compared to the percentage of businesses in each census tract income category.

<b>Geographic Distribution of Loans to Businesses in the Kent Assessment Area</b>				
<b>Census Tract Income Category</b>	<b>Number of Businesses</b>	<b>Percentage of Businesses</b>	<b>Number of Bank Loans</b>	<b>Percentage of Bank Loans</b>
<b>Low</b>	<b>11</b>	<b>8.59%</b>	<b>2</b>	<b>4.00%</b>
<b>Moderate</b>	<b>29</b>	<b>22.66%</b>	<b>13</b>	<b>26.00%</b>
Middle	54	42.19%	23	46.00%
Upper	34	26.56%	12	24.00%
Total	128	100.00%	50	100.00%

## **RESPONSES TO COMPLAINTS**

First National Bank has not received any written complaints during the evaluation period regarding its CRA performance.

## **FAIR LENDING or OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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