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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

November 6, 1997

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank of Gaylord  
Charter # 16477**

**501 West Main  
Gaylord, Michigan 49735**

Comptroller of the Currency  
Central District Office  
One Financial Place, Suite 2700  
440 South LaSalle Street  
Chicago, Illinois 60605

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

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank of Gaylord** prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of **November 6, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING: Outstanding**

First National Bank of Gaylord (FNB) has a strong loan-to-deposit ratio and excellent record of lending to small business owners and low-and moderate-income (LMI) consumers. A substantial majority of the bank's loans have been granted to borrowers residing within the bank's assessment area.

**DESCRIPTION OF INSTITUTION**

FNB is a \$61 million bank located in the northern portion of Michigan's lower peninsula. The bank is the primary asset of North Bancorp, Inc., a one-bank holding company. FNB's main office and one full service branch are located in Gaylord, Michigan. In addition, nine automated teller machines are located throughout the bank's assessment area.

There are no financial or legal impediments limiting the bank's ability to meet community credit needs. FNB offers a wide variety of loan products and participates in special loan programs designed to assist LMI borrowers. The bank's performance was rated outstanding at its last CRA examination.

**DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area is Otsego County. The County is comprised of small towns and rural areas. It is not part of a metropolitan statistical area (MSA). Gaylord, the County Seat, is centrally located within Otsego County. Based on 1990 Census Data, Otsego County has the following characteristics:

<b>Population</b>	<b>Number of Households</b>	<b>Owner-Occupied Households</b>	<b>Number of Families</b>	<b>Total BNAs<sup>1</sup> (#)</b>	<b>Upper Income BNAs<sup>1</sup></b>	<b>Middle Income BNAs<sup>1</sup></b>	<b>LMI BNAs<sup>1</sup></b>
17,957	6,522	55%	4,988	6	3	3	0

<sup>1</sup> Block Numbering Area

Otsego County's rapidly growing economy is strong. The October 1997 unemployment rate of 3.4% is low. Approximately 70% of workers are employed in service or retail jobs, many of them tied to the tourist trade. The County's 22 golf courses have earned it the title "Golf Mecca of the Midwest". The Pigeon River State Forest and a large number of lakes and ski resorts also contribute to the local economy. At least seven financial institutions, including two large regional banks, provide a moderate level of competition to FNB.

We contacted three organizations operating within the bank's assessment area. All three community contacts stated that they were unaware of any unmet credit needs within Otsego County. The

Realtor we spoke with stated she was aware of the special loan programs for LMI borrowers offered by FNB and one of its competitor banks.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

### Loan-to-Deposit Ratio

At the time of our review, FNB had the highest loan-to-deposit ratio of the community banks operating within its assessment area. Since its last CRA examination, FNB has maintained one of the highest loan-to-deposit ratios of all Michigan banks with total assets less than \$100 million (Peer). The average loan-to-deposit ratio for peer banks as of 9/30/97 was 74.62%. The table below shows the bank's percentile ranking within its peer group over the last eight quarters.

Quarter	Total Loans Outstanding (\$000)	Total Deposits Outstanding (\$000)	Loan / Deposit Ratio FNB	Percentile Ranking within Peer Group
12/31/95	37,724	46,331	81.42%	15%
03/31/96	39,178	46,053	85.07%	9%
06/30/96	40,447	47,381	85.37%	17%
09/30/96	41,037	47,930	85.62%	16%
12/31/96	42,566	48,794	87.24%	14%
03/31/97	42,747	52,976	80.69%	30%
06/30/97	45,243	52,042	86.94%	23%
09/30/97	47,131	54,351	86.72%	23%
<b>Total Quarters = 8</b>	<b>Avg L/D Ratio &amp; Percentile Ranking</b>		84.88%	18%

FNB also originates mortgages for sale in the secondary market. If these loans were held by the bank, its average loan-to-deposit ratio would be even higher than the table above indicates.

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

FNB has an excellent record of lending to small businesses within its assessment area. Discussions with management and a sample of 20 new commercial loans reveal that over 95% of the bank's commercial loans have been granted to businesses with annual revenues less than \$1 million.

The bank's record of lending to borrowers of different income levels is also commendable. To determine the distribution of credit to borrowers of different income levels, we sampled new residential mortgages and consumer loans. There were 120

borrowers in our mortgage sample and 52 in our consumer loan sample. The table on the following page illustrates the distribution of loans in our sample based on the income level of the borrower.

Otsego County	Percentage of Households in County	Consumer Loans <sup>2</sup>	Residential Mortgages
Low Income <sup>1</sup>	19%	29%	3%
Moderate Income <sup>1</sup>	15%	27%	17%
Middle Income <sup>1</sup>	20%	23%	25%
Upper Income <sup>1</sup>	46%	21%	55%
<b>Total</b>	100%	100%	100%

<sup>1</sup> Based on 1997 HUD Michigan non-MSA median income (\$35,500)

<sup>2</sup> Includes mobile home loans not secured by real estate

### Lending in Assessment Area

FNB is the second largest mortgage lender in Otsego County, based on the number of mortgages originated. The only financial institution to lead FNB in mortgage originations over the past two years is a \$13 billion regional bank. To ensure the bank is meeting the credit needs of its entire assessment area, management geocodes all loan applications and analyzes the results. The following table of loans **originated** from January 1, 1996 to September 30, 1997 shows that a significant majority of FNB's loans are granted to borrowers within the bank's assessment area.

	Total Loans (#)	Real Estate (#)	Consumer Loans (#)	Commercial Loans (#)
<b>Total w/in AA</b>	1,248	363	667	218
<b>Total outside AA</b>	156	35	103	18
<b>Total Originations</b>	1,404	398	770	236
<b>% w/in AA</b>	89%	91%	87%	92%

The consumer loan category has the largest number of loans granted to borrowers outside the bank's assessment area. Management attributes this to the bank's indirect automobile lending. Upon further review of loans outside the bank's assessment area, we found that all were granted to borrowers residing in BNAs contiguous to FNB's assessment area.

Because there are no LMI BNAs within the bank's assessment area, an analysis of the geographic distribution of credit within the bank's assessment area would not be meaningful.

The bank has good policies, procedures, and training programs in place to prevent discriminatory and other illegal credit practices. No violations of the substantive provisions of antidiscrimination laws and regulations were identified. Employees receive ongoing training to ensure they are knowledgeable about all laws and regulations relating to consumer credit. In addition, all denied loan applications receive a second review by the management loan committee to ensure that underwriting guidelines are applied equally to all applicants.