



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 02, 2009**

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

First National Bank of Michigan  
Charter Number 24637

348 West Michigan Avenue  
Kalamazoo, MI 49007-0000

Office of the Comptroller of the Currency

NORTHERN OHIO  
3 Summit Park Drive Summit Office Park, Suite 530  
Independence, OH 44131-6900

**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 assigned rating is based on the following conclusions:

- The First National Bank of Michigan's (FNB of Michigan) loan-to-deposit ratio is excellent in light of the de novo bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans made are in the bank's AA.
- FNB of Michigan's distribution of small business lending within the AA is excellent. The distribution of residential lending is acceptable given the bank's focus on small business lending.
- FNB of Michigan's lending to business of different sizes and people with different incomes is acceptable for a de novo bank that focuses on small business customers.

## **SCOPE OF EXAMINATION**

We evaluated FNB of Michigan's performance under the Community Reinvestment Act (CRA) small bank criteria. Our performance evaluation covered the period since the bank began operations in April 2006 through December 2008. We focused on the following five main factors: loan-to-deposit ratio, lending in and outside the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution of loans, and responses to complaints.

We analyzed the bank's performance with respect to its focus product, small business lending, and with respect to a secondary product, residential first mortgage loans. This analysis used listings of the bank's business and residential loans outstanding to determine what proportion were made in the AA and the geographic distribution of residential first mortgage loans within the AA. From these lists, we selected samples of 17 business loans and eight residential loans for additional analysis. Our conclusions placed more weight on small business loans because the bank's focus on this product has produced a larger volume of loans. We also considered the bank's de novo CRA Plan and a listing of CRA activities prepared by bank management.

## **DESCRIPTION OF INSTITUTION**

FNB of Michigan is a \$96.1 million intrastate financial institution headquartered in the City of Kalamazoo which is located in southwestern Michigan. FNB of Michigan is a newly organized de novo bank that first began operations in April 2006. Our evaluation period encompassed a period of time when management initially focused on developing product delivery and management processes and on growing the assets of the bank. The main office was opened in April 2006 in a moderate income census tract located in downtown Kalamazoo. A single branch office was opened in November 2008. The bank offers a wide range of deposit and loan products including personal checking, savings, ATM access, personal loans, residential first

mortgages, and home improvement loans. It has grown from having no assets in 2006 to its present size though making loans funded by deposits primarily from the local market.

As projected in the de novo CRA Plan, the bank’s focus has been to serve small business customers primarily through lending activities. The CRA Plan’s focus on small business lending was intended to help enhance the local area’s economy and job creation. There was to be appropriate outreach to small business and community organizations. Management has worked to implement this plan while giving necessary attention to the de novo bank’s organization and growth.

At December 31, 2008 As of December 31, 2008, the bank reported \$86.5 million in outstanding loans reflecting net loans and leases to total asset of 87.0 percent. As planned, most lending was for commercial purposes including term loans, lines of credit, and commercial real estate. Though not envisioned in the original CRA Plan, the bank has originated a smaller volume of residential loans. Home equity loans are retained by the bank in portfolio, but most residential first mortgages have been sold into the secondary market. The original amounts of loans currently outstanding are tabulated below to provide the volume of new lending during the evaluation period.

<b>Table 1 FNB of Michigan Originated Loans Through December 31, 2008 (reported 000)</b>		
Commercial/Business Loans	\$122,075	78.2%
Residential Home Equity Loans	\$21,548	13.8%
Residential First Mortgage Loans	\$12,441	8.0%
Total Loans Originated and Outstanding (Original Amounts)	\$156,064	100.0%

*Data Source: OCC and Internal Bank reports.*

There are no legal impediments, which would affect the bank’s ability to serve the community. Capital ratios are well above regulatory requirements and have no negative impact on the bank’s ability to lend. This evaluation is the bank’s first CRA review.

**DESCRIPTION OF ASSESSMENT AREA(S)**

The AA is Kalamazoo County, Michigan which is within the Kalamazoo-Portage Michigan MSA (28020). Of the 60 census tracts within the AA, there are four low-income and twelve moderate-income census tracts with the remaining tracts having middle- (28) and upper- (16) incomes.

The AA is served by a substantial number of financial institutions. Thirteen large or regional banks or thrift institutions and six community banks have multiple offices within the AA. The number of financial institutions in the AA helps to provide a competitive banking environment. According to a June 30, 2008 Federal Deposit Insurance Corporation (FDIC) report, FNB of Michigan is ranked ninth in deposit market share with 2.2% of deposits in the AA.

The AA presents a varied mix of demographic characteristics including significant low-income

and high-income populations. The proportion of rental housing is substantially higher than in Michigan as a whole which may be due to the larger number students attending the state university and private college in the AA. Based on 2000 census information, the population income distribution in the AA is similar to Michigan statewide including low- to high- family and household incomes and the portion households below the poverty level.

However, current unemployment rates for the AA are better than for Michigan which may be due to a more diversified economic base. Occupations with larger numbers of workers in the area include service occupations such as educational and health services, professional and business services, financial activities, and leisure and hospitality. They also include industrial occupations such as manufacturing, trade and transportation, and natural resources and construction. From 2004 through 2008 total employment in the AA increased, but while employment in the service occupations increased, those in industrial occupations decreased.

Table 2 Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	60	6.7	20.0	46.7	26.6	0.0
Population by Geography	238,603	7.8	16.8	46.6	28.8	0.0
Black Population by Geography	22,968	27.5	34.5	29.9	8.1	0.0
Owner-Occupied Housing by Geography	61,484	2.3	11.3	50.6	35.8	0.0
Renter-Occupied Housing by Geography	31,995	10.5	29.3	47.3	12.9	0.0
Non-Farm Businesses by Geography	16,186	3.4	20.3	47.3	29.0	0.0
Low- and Middle Income Families by Geography	20,734	7.6	20.6	50.8	21.0	0.0
Households Below Poverty Level by Geography	10,799	18.6	35.4	35.4	10.6	0.0
Median Family Income	\$55,716	<u>Unemployment Rate – February 2009 (Not Seasonally Adjusted)</u> Assessment Area (Kalamazoo County) State of Michigan United States				8.4%
Black Population	9.6%					12.5%
Rental Occupied Units	32.2%					8.1%
Monthly Renter Costs > 30% of Income	12.5%					
Businesses with Revenue < \$1 million	66.6%					
Low- and Middle-Income Families	35.6%					
Households Below the Poverty Level	11.6%					

Data Source: 2000 U.S. Census, 2008 Business Geodemographic Data, and 2009 Bureau of Labor Statistics.

For this evaluation we interviewed representatives of three community groups, two concerned with affordable housing and one local government agency. The interviews indicated that there is a need for affordable housing in the area, both owner occupied and rental. Local financial institutions were involved with community organizations to address this need. There is also a need for economic development that would bring less skilled jobs to the community. Most new

jobs created in the AA require advanced education and experience that could not be gained through a short period of vocational training. There are fewer community organizations to assist economic development of this type.

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

FNB of Michigan's CRA performance is satisfactory. The bank meets the standards for a satisfactory rating and in some ways exceeds them. However, performance is not sufficiently strong to achieve an outstanding rating. FNB of Michigan's loan-to-deposit ratio is excellent, and a substantial majority of loans made are in the bank's AA. FNB of Michigan's distribution of small business lending within the AA also is excellent, and the distribution of residential lending is acceptable. FNB of Michigan's lending to businesses of different sizes and people with different incomes is acceptable.

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

FNB of Michigan's loan-to-deposit ratio is excellent in light of the de novo bank's size, financial condition, and AA credit needs. FNB of Michigan's average of quarterly loan-to-deposit ratios from the first quarter after it was formed, June 30, 2006 to December 31, 2008 is 102.2 percent. The bank's loan-to-deposit ratio has ranged from 33.0 percent to 119.2 percent over the evaluation period. The low ratios occurred just after the bank was formed before enough time had passed to originate a sufficient volume of loans. FNB of Michigan's loan-to-deposit ratio at December 31, 2008 of 117.5 percent exceeds a comparable ratio of 95.4 percent for a similar peer group of de novo banks that were also formed in 2006. FNB of Michigan's loan-to-deposit ratio has consistently exceeded the ratio of this comparable peer group.

### **Lending in Assessment Area**

A substantial majority of loans made are in the bank's AA. The listings of the bank's business and residential first mortgage loans originated during the evaluation period and still outstanding were used to determine the proportion of them made in the AA. Based on these listings, 87.0 percent of business loan dollar volume and 65.8 percent of residential first mortgage loans by dollar volume are made within the AA.

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

FNB of Michigan's lending to business of different sizes and people with different incomes is acceptable. Business revenue and family income was determined for samples of 17 business loans and eight residential first mortgage loans made within the AA.

The business loan sample found that 41.2 percent by number (7 of 17) were made to small businesses with less than \$1 million in revenue. Although lower than the overall proportion of small businesses in the AA it still represents acceptable performance for a de novo bank. In the period soon after the bank was formed, making larger loans to larger businesses was necessary to achieve rapid growth and breakeven profitability given a smaller staff and substantial competition.

<b>Table 3 - Borrower Distribution of Loans to Businesses in FNB of Michigan's AA</b>				
Business Revenues (or Sales)	<\$1,000,000	≥\$1,000,000	Unavailable/ Unknown	Total
% of AA Non-Farm Businesses by #	66.6%	6.5%	26.9%	100%
% of Bank Loans in AA by #	41.2%	58.8%	0.0%	100%
% of Bank Loans in AA by \$	21.7%	78.3%	0.0%	100%

Source: *Loan Sample and 2008 Business Geodemographic Data.*

The residential first mortgage loan sample found no loans to low income people and one loan to a moderate income person. These results are comparable to the proportion of moderate income families in the AA but below the proportion of low income families in the AA. The low volume of such lending reflects the role of residential lending within the bank's business plan. Residential lending primarily accommodates commercial loan and deposit customers without a focused marketing effort against substantial competition. In addition, the commercial loan sample found one business borrower that develops and manages rental housing for low income tenants using various government subsidized programs including one apartment within the AA.

<b>Table 4 - Income Distribution of Residential First Mortgage Loans in FNB of Michigan's AA</b>								
Borrower Income Level	Low < \$27,858		Moderate \$27,859 - \$44,573		Middle \$44,574 - \$66,859		Upper > \$66,860	
	% 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
Residential Real Estate Loans	17.9%	0.0%	17.7%	12.5%	23.2%	25.0%	41.2%	62.5%

Source: *Loan sample; 2000 US Census, and 2008 HUD Updated Median Family Income data.*

### Geographic Distribution of Loans

FNB of Michigan's distribution of small business lending within the AA is excellent. Within the sample of 17 business loans, almost half (8) of the businesses were headquartered in low-income census tracts which compares favorably with the proportion of businesses in low-income census tracts within the AA.

<b>Table 4 - Income Distribution of Residential First Mortgage Loans in FNB of Michigan's AA</b>				
Census Tract Income Level	Low < \$27,858	Moderate \$27,859 - \$44,573	Middle \$44,574 - \$66,859	Upper > \$66,860
% of AA Non-Farm Businesses by #	3.4%	20.3%	47.3%	29.0%
Business Loans	47.1%	17.7	17.6	17.6

Source: *Loan sample and 2008 Business Geodemographic Data.*

The distribution of residential lending is acceptable given the FNB of Michigan's focus on small business lending in the bank's competitive market. The list of residential first mortgage loans originated during the evaluation period shows that 5.6% (2 of 36) are in moderate-income census tracts, which is less than the 11.3% of owner occupied homes in moderate-income tracts.

### **Responses to Complaints**

There were no consumer complaints relating to the bank's CRA performance during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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