



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

## PUBLIC DISCLOSURE

June 01, 2009

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Superior National Bank & Trust Company  
Charter Number: 9087

235 Quincy Street  
Hancock, MI 49930-0000

Office of the Comptroller of the Currency  
Iron Mountain Field Office  
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**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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

Major factors supporting this rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the Assessment Area (AA).
- The bank's level of loans originated within its AA is excellent.
- The distribution of borrowers reflects reasonable penetration among businesses of different sizes and individuals of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The bank's community development performance through community development loans, qualified investments, and services demonstrates reasonable responsiveness to community development needs in its AA.

### **Scope of Examination**

Superior National Bank and Trust's (SNBT) Community Reinvestment Act (CRA) performance was evaluated under the Intermediate Small Bank Lending and Community Development Tests. For the Lending Test, the bank's primary loan products, small business loans and home mortgage loans (including purchases and refinances) were chosen. The bank's AA was selected for a full scope review.

The evaluation covers the period since the date of the previous CRA examination, April 29, 2002. The Lending Test evaluated small business and home mortgage loans originated or purchased between January 1, 2007 and May 19, 2009. The Community Development Test covered the community development loans, investments, and services during the entire evaluation period. To evaluate small business and home mortgage lending, we used both data from the bank's loan trial balance as well as random samples of loans from the bank's AA. Additionally, the most recent demographic data available was obtained for the Lending Test. The bank's community development loans, investments, and services were reviewed based on information provided by the bank. Only those items that met the regulatory definition of community development were considered in the Community Development Test.

### **Description of Institution**

SNBT is a \$392 million financial institution headquartered in Hancock, Michigan. The bank is 100% owned by Keweenaw Financial Corporation, a one-bank holding company also headquartered in Hancock, Michigan. All financial information is as of March 31, 2009, unless otherwise noted. In addition to its main office in Hancock, the bank operates eight full service branches located in Baraga, Chassell, L'Anse, Mohawk, Calumet, Lake Linden and Houghton

(Econo Foods and Ridgecrest Plaza). The Calumet and Lake Linden branches are located in moderate-income census tracts. The Baraga, Chassell, L'Anse and Mohawk branches are in middle-income census tracts that have been designated as underserved or distressed markets. The Hancock main office and two Houghton branches are in middle-income census tracts. Effective January 1, 2009, Commercial National Bank of L'Anse (CNB), SNBT's sister bank, was merged into SNBT as a branch location. All locations have ATMs and all but two have drive-up facilities in addition to regular lobby hours. ATMs are also available at Baraga's Ojibwa Casino, the Houghton County Airport, the Pines Convenience Store in Baraga, and Finlandia University in Hancock. The branch system is supplemented by telephone and Internet banking services. The bank's lending area is entirely within the State of Michigan.

The bank's business strategy has been to serve the credit needs of its local community. The bank is primarily a residential real estate and small business lender.

The bank offers a variety of products and services including business, real estate, and consumer purpose loans and various deposit and investment products. As of March 31, 2009, the bank has a total loan portfolio of \$273 million, representing 70% of total assets. The bank has Tier 1 capital of \$44 million. By dollar volume, the loan portfolio is comprised of business loans (34%), residential real estate (51%), agricultural (1%), consumer (11%), and other loans (3%).

There are no legal or financial constraints limiting the bank's ability to meet the community's credit needs. The bank received a "Satisfactory" rating from the last CRA examination dated April 29, 2002, under the small bank CRA standards.

### **Description of Assessment Area**

The bank has designated all of Baraga, Houghton, Keweenaw, and Ontonagon Counties as its assessment area (AA). This area includes three moderate-income and thirteen middle-income census tracts. Two of the bank's nine locations are located in moderate-income census tracts. The bank's lending area includes thirteen distressed and underserved census tracts. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Competition from other financial institutions throughout the bank's AA is strong. SNBT has the largest deposit market share at 36% and ranks first out of all FDIC-insured institutions. This is using market share data as of June 30, 2008. The balance of the market share is divided among nine institutions with market shares ranging from 17% down to 3%. In January of 2009, CNB was merged into SNBT as a branch location. CNB ranked fourth with a deposit market share of 8%.

The following table summarizes the income levels of census tracts and families located within the bank's AA:

<b>INCOME DISTRIBUTION OF CENSUS TRACTS AND FAMILIES</b>
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Assessment Area	Census Tracts (#)				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Baraga, Houghton, Keweenaw, Ontonagon Counties	0	3	13	0	21%	23%	24%	32%
<b>Total</b>	<b>0</b>	<b>3</b>	<b>13</b>	<b>0</b>	<b>21%</b>	<b>23%</b>	<b>24%</b>	<b>32%</b>

Source: 2000 U.S. Census.

According to 2000 census data, the total population of the bank's AA is 54,881, which is comprised of 13,324 families. Income levels for these families are as follows: 2,827 low-income families (21%), 3,063 moderate-income families (23%), 3,227 middle-income families (24%), and 4,207 upper-income families (32%). Of the low-income families, 25% are below the poverty level. The 2000 U.S. Census estimated median family income (MFI) is \$38,818 for the AA. The 2009 updated Department of Housing and Urban Development (HUD) estimated MFI is \$52,700.

The local economy is characterized as declining with increasing unemployment levels. There is a strong need for jobs in the area. Major employers/industries in the area are Michigan Technological University, Finlandia University, Portage Health System, Baraga County Hospital, Baraga Maximum Security Prison and tourism-related service jobs. The unemployment rate for 2008 in Michigan was 8.4%, while the rate for Baraga County was 14.1%, Houghton County was 8.1%, Keweenaw County was 11.5% and Ontonagon County was 9.5%. These figures were not seasonally adjusted.

A community contact from the AA was interviewed to determine the state of the local economy and to identify opportunities for financial institutions to participate in community development activities. We met with the Executive Director of the Keweenaw Community Foundation. The interviewee stated that the local economy is struggling and job growth has been slow. Overall, the individual stated that local financial institutions are doing a good job at meeting the credit needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

The lending test is rated Satisfactory.

### Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given its size, financial condition, and the credit needs of the community. The average quarterly loan to deposit ratio for the bank since the last examination is 74.64%, which ranks first in a peer group of three area banks. SNBT has the highest level of average assets of these banks at \$392 million. The other banks' average assets were \$45 million and \$50 million. The average loan to deposit ratios for the three banks ranged

from 46% to 74% over the same period. Over the last 28 quarters, SNBT had a LTD ratio high of 84.88% and a LTD ratio low of 61.15%.

### Lending in Assessment Area

SNBT originates a substantial majority of its loans to borrowers located within its AA. A review of the bank’s primary loan products shows that 95% by number and 97% by dollar volume of loans were made to businesses and individuals located within the bank’s assessment area.

<b>Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	27	90%	3	10%	30	\$1,592	91%	\$153	9%	\$1,745
Business	30	100%	0	0%	30	\$2,821	100%	\$0	0%	\$2,821
Totals	57	95%	3	5%	60	\$4,413	97%	\$153	3%	\$4,566

Source: Bank records (verified by examiners)

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

The distribution of borrowers in the bank’s AA reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

As shown in the following table, the distribution of loans to businesses of various revenue sizes is reasonable. The number of loans to businesses with revenues under \$1 million exceeds the area demographics.

<b>Borrower Distribution of Loans to Businesses</b>			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown
% of AA Businesses	60%	4%	36%
% of Bank Loans in AA by #	73%	27%	0%
% of Bank Loans in AA by \$	47%	53%	0%

Source: Sample of 30 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic data.

The distribution of home mortgages to borrowers of various income levels is reasonable. Although the bank’s percentage of loans to low-income borrowers is lower than the percentage of low-income families in the area, consideration is given to the percentage of families living below the poverty level (25%). The bank’s lending to moderate income borrowers exceeds the demographics.

### Borrower Distribution of Home Mortgage Loans

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
% of Total	21%	11%	23%	37%	24%	26%	32%	26%

Source: Sample of 27 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic data.

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the bank's AA.

Of our sample of 30 business loans, 10% were located in a moderate-income census tract in the assessment area. According to demographic data, 16% of AA businesses are located within this area.

Geographic Distribution of Business Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
% of Total	0%	0%	16%	10%	84%	90%	0%	0%

Source: Sample of 30 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic data

Of our sample of 27 home mortgage loans, the bank originated 15% of its loans to borrowers in moderate-income census tracts. This is just slightly less than the percentage of owner occupied housing (17%) in the moderate-income tracts.

Geographic Distribution of Home Mortgage Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
% of Total	0%	0%	17%	15%	83%	85%	0%	0%

Source: Sample of 27 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic data.

### Targeted Loan Programs

SNBT also participates in the following loan programs that target or primarily benefit small businesses, Low-to-Moderate Income (LMI) individuals and distressed or underserved areas.

- **Guaranteed Rural Housing Loans.** These loans originated as part of the USDA Rural Development Rural Housing Service Program. These loans are originated in areas that were designated as underserved or distressed middle income census tracts. By making these loans the bank is helping to revitalize and stabilize these areas. Total loans originated under this program: Seven (7) loans totaling \$501,029.
- **Small Business Administration (SBA) loans** are available for businesses that may not qualify for conventional loan terms.

## **COMMUNITY DEVELOPMENT TEST**

Superior National Bank and Trust's (SNBT) performance under the Community Development (CD) Test is rated **Satisfactory**.

During the evaluation period, SNBT provided over \$1 million in community development loans and qualified investments to help meet the community development needs of its AA. In addition, bank personnel provided financial expertise to eight community development organizations serving the AA. The bank's level of CD activities is considered adequate given its size and capacity and considering the CD needs and opportunities of its AA.

In addition, retail banking services are very accessible to individuals of all income levels.

### **Community Development Loans**

SNBT provides a satisfactory level of community development (CD) lending. The bank originated twelve qualifying CD loans totaling approximately \$1.4 million, all benefiting the bank's AA.

These loans include:

- A loan in the amount of \$70,000 to Vocational Strategies for a new roof. Vocational Strategies provides community services targeted at LMI individuals. The focus of the organization is job training and placement. This benefits not only LMI individuals but also helps to stabilize and revitalize the underserved and distressed middle income census tracts in the AA by reducing the unemployment rate and retaining people in the area.
- A loan in the amount of \$83,366 to Vocational Strategies for building improvements and equipment.
- A line of credit for \$30M to Vocational Strategies for working capital purposes.
- **Guaranteed Rural Housing Loans.** These loans originated as part of the USDA Rural Development Rural Housing Service Program. These loans are originated in areas that

were designated as underserved or distressed middle income census tracts. By making these loans the bank is helping to revitalize and stabilize these areas. Total loans originated under this program: Seven (7) loans totaling \$501,029.

- Two loans to Goodwill Industries totaling \$700M. Both loans were for working capital purposes. The first \$500M originated in February 2008 and the second loan for \$200M originated in June 2008. Goodwill Industries provides programs and services to help benefit LMI individuals.

### **Community Development Investments**

The bank made a reasonable amount of qualified investments and donations in its AA. During the evaluation period, SNBT made investments to eight different organizations within the assessment area totaling \$8,907. These donations supported economic development and social services for low-to-moderate income individuals (LMI).

### **Community Development Services**

SNBT provides a good level of community development services.

Retail services are very accessible to individuals of different income levels. The bank's Calumet and Lake Linden branch locations are both located in moderate income census tracts. The remaining seven branches are located in middle income census tracts that have been designated as either underserved or distressed. The bank offers a full range of consumer and commercial banking products and services at all of its branches. In addition to its full service branch and ATM locations, the bank also offers internet banking and telephone banking for added accessibility to the bank's products.

During the examination period, SNBT employees provided technical assistance and financial expertise to several community development organizations. These organizations address AA needs for affordable housing, economic development, and social services to LMI individuals.

The following examples illustrate some of the services provided:

- An employee has served on the Board of BHK Child Development Foundation since 2005. The purpose of the foundation is to receive and distribute funds for charitable and educational activities within the meaning of Section 501 (c)(3), by assisting in the development, implementation or maintenance of educational programs which significantly contribute to the education of LMI children under the Baraga-Houghton-Keweenaw Child Development Board, Inc.
- An employee has served as Chairman of the Board of BHK Foundation beginning in 2009. The foundation raised money for programs and college grants/scholarships for low income families.
- An employee has served as Board Commissioner of the Baraga Housing Commission since 2002. She oversees operations and funding for low income senior housing.

- An employee provided financial counseling to LMI homeowners on bill payments and performs all of the mortgage closings for the Copper County Habitat for Humanity.
- SNBT sponsored an informational session for realtors on rural development loans. Rural development loans are only available to LMI individuals. By educating the realtors on these loans, the realtors can better help potential buyers locate properties that would qualify for the loan and obtain lower cost financing.
- One employee has served on the Finance Committee of the Hancock Salvation Army for the past 15 years. She helps support the efforts of the Salvation Army through fundraising and overseeing various activities.
- One employee served on the planning committee for the Keweenaw County Economic Development Steering Committee in 2009. The purpose of the committee was to formulate ways to develop business growth and other economic development in the area.
- An employee is on the Board of the Keweenaw Economic Development Alliance. The purpose is to promote economic development in the area.
- One employee helped in administering funds for the Homeownership Initiative Program. The program is responsible for helping members of the Keweenaw Bay Indian Community obtain down payment assistance and funds for rehabilitation of existing homes. The employee has worked with this program since 2005.

### **Responses to Complaints**

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

### **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.