



## **PUBLIC DISCLOSURE**

November 28, 2016

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

Capitol National Bank  
Charter Number 17525

200 Washington Square North  
Lansing, MI 48933

Office of the Comptroller of the Currency

**200 Public Square  
Suite 1610 Cleveland, OH 44114-2241**

**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 this rating are:

- The loan-to-deposit ratio is reasonable given the Bank's size and financial condition, and the credit needs of the community.
- A substantial majority of business loans originated during the evaluation period are within the Bank's assessment area.
- The geographic distribution of business loans reflects excellent dispersion throughout the assessment area.
- The distribution of business loans reflects reasonable penetration of businesses of different sizes.

**SCOPE OF EXAMINATION**

This Performance Evaluation covers the period of June 4, 2010 to November 28, 2016. In conducting this review, the Office of the Comptroller of the Currency (OCC) evaluated Capitol National Bank's (Bank or CNB) performance within its delineated assessment area (AA) using small bank Community Reinvestment Act (CRA) full-scope procedures. The procedures used to assess the Bank's performance rating focused on its lending activities. The OCC evaluated the Bank's lending activities based on its loan-to-deposit ratio, lending concentration inside and outside its AA, geographic distribution of loans, lending to businesses of different sizes, and compliance with anti-discrimination laws and regulations. The evaluation period for assessing the Bank's lending activities covered January 1, 2014 through December 31, 2015.

The Bank's primary lending focus is lending to businesses, which includes commercial real estate and commercial and industrial lending. The OCC determined the Bank's primary lending focus based on its Report of Condition and Income, as well as discussions with senior management. As of September 30, 2016, business and commercial loans comprised 81.04 percent of the Bank's loan portfolio. Though 1-4 family residential loans represented 10 percent of the Bank's loan portfolio, residential lending is not a focus of the Bank. Additionally, consumer and home equity loans represent a small fraction of the Bank's lending. The OCC did not consider residential and consumer lending products as part of the evaluation.

The OCC relied on internal Bank reports to identify small loans to businesses. To ensure the accuracy of reports detailing small loans to businesses, the OCC completed a data integrity review during the on-site evaluation to validate the Bank's 2014 business loan CRA data. The OCC found the information as presented to be accurate. The OCC also utilized other supporting information to evaluate the Bank's CRA performance. This information included 2010 Census Data, 2015 business demographic data, internal Bank records, deposit market share data, and information from

governmental web sites regarding the characteristics and economy of the Bank's AA. Furthermore, the OCC used information from two community contacts, which were conducted prior to the evaluation, to help assess the needs of the community and the opportunities for financial institutions to lend and provide services to the AA.

## DESCRIPTION OF INSTITUTION

CNB is a full-service community bank headquartered in Lansing, Michigan. The Bank operates two branches, including its main office in Lansing and another branch located in Okemos, Michigan. Both branches have onsite automated teller machines (ATMs), with the Lansing office being a full service machine and the Okemos office being a cash dispensing only machine. The Bank also offers remote deposit capture availability. The Bank has not opened or closed any branches during the evaluation period.

As of September 30, 2016, CNB had \$120.1 million in total assets and \$11.2 million in tier 1 capital. Its loan portfolio totaled \$82.4 million, or 68.6 percent of total assets. Until December 20, 2013, the Bank was a subsidiary of Capitol Bancorp Limited, which provided significant services to the Bank. After the transition away from Capitol Bancorp Limited, CNB's Board approved a resolution creating new committees, management changes, and changes to Bank management's authority. In addition to its primary market area, CNB is developing some western Michigan relationships.

CNB offers traditional banking products and services. Business lending is its primary loan focus, and the Bank actively seeks to serve the credit needs of the business community. The Bank also offers consumer and residential loan products, as well as providing a wide range of deposit products and services.

Table 1 presents a categorization of the Bank's loan portfolio composition, as well as support for determining its primary lending focus. The Bank also offers loans under the Small Business Administration (SBA) guarantee program to assist in meeting the needs of small businesses.

Type of Loan	Dollars of Loans (\$000s)	Percentage of the Portfolio
Non-Farm Non-Residential Loans	53,248	64.66
Commercial and Industrial Loans	13,494	16.38
Residential Mortgage Loans (First Liens)	5,798	7.04
Residential Mortgage Loans (Junior Liens)	2,344	2.85
Multi-Family Loans	4,328	5.26
Construction and Development Loans	1,644	2.00
Home Equity Loans and Credit Lines	812	0.98
Consumer Loans	392	0.48
Agricultural Loans	279	0.34
Other Loans	18	0.01
<b>Total Loans Outstanding</b>	<b>82,357</b>	<b>100.00</b>

Source: Capitol National Bank September 30, 2016 Report of Condition and Income.

The Bank operates under a Consent Order that includes capital requirements, and therefore, is experiencing financial constraints that have impacted its ability to reasonably meet the credit needs of the AA. The Bank received a “Satisfactory” rating as of the last CRA evaluation dated June 3, 2010.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The Bank’s AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. The AA is comprised of the entire Lansing-East Lansing MI Metropolitan Statistical Area (29620) (MSA) that includes the counties of Ingham, Clinton, and Eaton in the central part of Michigan’s Lower Peninsula. Lansing is the state capitol of Michigan and is the third largest metropolitan area in the state behind Detroit and Grand Rapids. The AA has a mixture of rural, suburban, and urban neighborhoods.

The AA has experienced population growth greater than the average growth rate of the State of Michigan. Since 2010, the U.S. Census Bureau estimates the overall population of the AA has increased by 1.8 percent (with Clinton County seeing the greatest growth at 2.7 percent) compared with the state population growth of 0.4 percent. Based on 2010 U.S. Census data, the AA comprises 131 census tracts, of which eight are designated as low-income tracts, twenty-eight as moderate-income tracts, fifty-seven as middle-income tracts, and twenty-eight as upper-income tracts. Ten census tracts have no income designation. In addition, the AA contains no designated distressed or underserved middle-income areas.

The AA benefits from the economic stability afforded by state government offices, Michigan State University, Sparrow Health Systems, and several medical and law schools. The area’s major industries are government, education, insurance, healthcare, and automobile manufacturing. General Motors has offices and a hi-tech manufacturing facility in Lansing. The area also is headquarters to four major national insurance companies: Auto-Owners Insurance Company, Jackson National Life, the Accident Fund, and Michigan Millers Insurance Company. The state government is the most significant employer, and healthcare accounts for the largest share of the services sector.

A majority of businesses in the AA are small as measured by the number of employees and gross revenues. According to the 2015 Dunn and Bradstreet data, 77.4 percent of businesses located in the AA have less than \$1 million in gross annual revenues, and 69.9 percent of businesses have fewer than five employees. Only 2.3 percent of businesses are headquartered in the Bank’s AA, and 86.7 percent operate from a single location. The three primary business sectors within the AA include services, retail trade, and insurance.

The AA has a competitive banking environment, with a mix of large banks, community banks, and credit unions serving the area. According to the June 30, 2016 FDIC Deposit Market Share Report, there are 23 financial institutions with 118 offices serving the AA,

which does not include credit unions or other financial organizations. This data indicates that the Bank is ranked thirteenth in terms of deposit market share, holding approximately 1.9 percent of the total deposits. Five banks dominate the small business lending market share in the AA, accounting for over 62 percent of the lending dollars, with one bank responsible for over 20 percent of the number of small business loans made in the MSA. CNB is not required to and does not report small business loan information.

Local and statewide unemployment levels have gradually decreased during the evaluation period. The statewide unadjusted unemployment average was 12.6 percent in 2010, and 5.4 percent in 2015. The average unadjusted unemployment rates for the MSA also decreased during this period. Table 2 provides a comparison of non-seasonally adjusted annual unemployment rates for the three AA counties, as well as national and state rates as of December 31, 2015. Since December 31, 2010, the unemployment rate for Clinton County decreased from 8.4 percent to 3.7 percent, the rate for Eaton County decreased from 9.6 percent to 4.2 percent, and the rate for Ingham County decreased from 10.3 percent to 4.4 percent. These unemployment rates are below the State of Michigan's average unemployment rate due largely to industry diversification in the AA. Additionally, 15.1 percent of households in the AA live below the poverty level.

<b>Table 2 – Unemployment Information December 31, 2015</b>	
	Unemployment Rate (not seasonally adjusted)
National Rate	5.3%
State of Michigan	5.4%
Clinton County	3.7%
Eaton County	4.2%
Ingham County	4.4%

*Source: December 31, 2015 U.S. Bureau of Labor Statistics.*

Based on 2010 U.S. Census data, the AA contains approximately 4.7 percent of the state's population, with 464,036 residents in 112,894 families and 180,402 households. The number and percentage of families in each income level within the AA are identified in Table 3. In aggregate, 43,267 families (38.3 percent) in the AA are designated low- or moderate-income. The 2015 FFIEC Updated Median Family Income for the MSA is \$65,800.

<b>Table 3– AA Income Levels December 31, 2015</b>		
	Number of Families	Percentage of Families
Low Income Families	23,207	20.55
Moderate Income Families	20,060	17.77
Middle Income Families	24,730	21.91
Upper Income Families	44,897	39.77
Total Families	112,894	100.00

*Source: 2010 U.S. Census*

According to 2015 Business Geodemographic Data, the AA has 27,273 non-farm businesses with 20,906 (76.7 percent) having gross revenues of \$1 million or less.

To assess the Bank’s performance, the OCC considered information from members of the community in order to obtain an understanding of the AA’s needs and credit opportunities. The OCC interviewed representatives from affordable housing and financial education organizations. They indicated the need for developing financial services to assist low- and moderate-income individuals. Primary needs include money management programs for young adults, small dollar consumer loan products as an alternative to payday lending, affordable checking accounts, investors for a loan funding program, and sponsorships for the organization’s fundraisers.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

CNB’s loan-to-deposit ratio is reasonable given the Bank’s size and financial condition, and the credit needs of the community. The Bank’s quarterly loan-to-deposit (LTD) ratio, averaged for the previous 26 quarters from June 30, 2010 through September 30, 2016, is 75.58 percent. Its maximum net LTD ratio during the evaluation period reached 90.26 percent as of December 31, 2010, with a minimum LTD ratio of 63.61 percent as of March 31, 2015. The OCC also compared the Bank’s net LTD ratio with the net LTD ratio of peer banks during the same evaluation period. The OCC’s review found one similarly situated institution that is under a Consent Order and experiencing similar financial difficulties. The similarly situated institution had a lower net LTD ratio at 54.33 percent. The OCC found no other similarly situated institutions within the Bank’s AA to use as a comparison.

### Lending in Assessment Area

CNB originates a substantial majority of its small loans to businesses within its AA. Table 4 reflects that, out of a total of 264 business loans originated during 2014 and 2015, the Bank made 228 within its AA. The 228 loans represent 86.36 percent of the number of loans and 81.11 percent of the dollar amount of loans originated.

Type of Loan	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Loans to Businesses 2014	118	90.77	12	9.23	130	22,662	89.56	2,642	10.44	25,304
Small Loans to Businesses 2015	110	82.09	24	17.91	134	21,736	73.85	7,696	26.15	29,432
<b>Total</b>	<b>228</b>	<b>86.36</b>	<b>36</b>	<b>13.64</b>	<b>264</b>	<b>44,398</b>	<b>81.11</b>	<b>10,338</b>	<b>18.89</b>	<b>54,736</b>

Source: CNB Small Business Loan reports

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

CNB’s distribution of business loans reflects reasonable penetration of businesses of different sizes, including businesses with gross annual revenues of \$1 million or less. In determining the level of penetration among businesses of different sizes, the OCC compared the percentage of CNB’s small loans to businesses originated or purchased in 2014 and 2015 with the percentage of businesses located in the AA. As evidenced in Table 5, the Bank’s percentage of small loans to businesses, both by number and dollar amount, are below the percentage of businesses in the AA that report revenues of \$1 million or less. However, in comparison with banks that lend in the AA, CNB exceeds the percentages of both the number and dollar amount of loans originated. Additionally, factors such as legal and financial impediments and the level of competition has impacted the Bank’s ability to lend.

Table 5 – Borrower Distribution of CNB’s Business Loans					Peer AA Bank Lending to Businesses with ≤\$1,000,000 in Revenue
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total	
% of AA Businesses	77.49	5.48	17.03	100.00	77.49
% of Bank Loans in AA by #	55.56	34.64	9.77	100.00	47.24
% of Bank Loans in AA by \$	48.10	43.43	8.47	100.00	33.02

Source: CNB Small Business Loan reports; 2015 Business Geodemographic Data

**Geographic Distribution of Loans**

CNB’s geographic distribution of small loans to businesses reflects excellent dispersion throughout its AA. The Bank’s lending in low- and moderate-income census tracts significantly exceeded the percentage of businesses located in those tracts. This represents excellent performance especially since CNB’s opportunity to lend to businesses in any census tract is limited due to its financial and legal impediments.

Table 6 illustrates the geographic distribution of small loans to businesses originated by CNB within its AA.

Table 6 – Geographic Distribution of CNB’s Business Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
	3.74	8.04	22.95	45.09	44.92	27.68	28.39	19.20

Source: CNB Small Business Loan reports; 2015 Business Geodemographic Data.

**Responses to Complaints**

CNB did not receive any complaints during the evaluation period that would affect its CRA rating.

## **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 or federal savings association's CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the national bank or federal savings association, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or federal savings association's lending performance.

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