



## **PUBLIC DISCLOSURE**

August 16, 2013

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

Superior National Bank & Trust Company  
Charter Number 9087

235 Quincy Street  
Hancock, MI 49930

Office of the Comptroller of the Currency  
Milwaukee Field Office  
1200 North Mayfair Road, Suite 200  
Wauwatosa, WI 53226

**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 its assessment area.
- A substantial majority of loan originations are made within the bank's assessment area.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution reflects reasonable dispersion among geographies of different income levels and businesses of different sizes.
- The bank's community development performance through community development loans, qualified investments, and services demonstrates reasonable responsiveness to community development needs in the assessment area.

## 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 and home mortgage loans, were sampled. The bank's assessment area was selected for a full scope review.

The evaluation covers the period since the date of the previous CRA exam, June 1, 2009. The Lending Test evaluated small business and home mortgage loans originated or purchased between January 1, 2011 and June 20, 2013. 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 a random sample of loans from the bank's assessment area. 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 \$542 million financial institution headquartered in Hancock, Michigan. The bank is 100 percent owned by Keweenaw Financial Corporation, a one-bank holding company headquartered in Hancock, Michigan. All financial information is as of June 30, 2013, unless otherwise noted.

The main office is located in Hancock, MI, in a middle-income census tract. 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 main office, Baraga, Chassell, Houghton, L'Anse, and Mohawk branches are in middle-income census tracts that have been designated as underserved or distressed markets. No branches have opened or closed in the last two years; however, an ATM was removed from Finlandia University. Three new ATMs were installed at Pat's Foods in Hancock and Calumet and Campioni's Convenience store in South Range. Pat's Foods in Calumet is located in a moderate-income census tract.

The bank's continued business strategy has been to serve the credit needs of its local community. The bank is primarily a small business and residential real estate lender. The bank offers a variety of products and services including loan products and various deposit and investment products.

As of June 30, 2013, the bank has a total loan portfolio of \$291 million, representing 53 percent of total assets. By dollar volume, the loan portfolio is comprised of residential real estate (51 percent), business loans (34 percent), consumer (13 percent), and other loans (2 percent).

There are no 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 June 1, 2009.

## **Description of Assessment Area**

SNBT has one assessment area (AA) located entirely in the Upper Peninsula of Michigan. The AA does not lie within a Metropolitan Statistical Area (MSA). The AA includes all of Baraga, Houghton, Keweenaw, and Ontonagon Counties. Based on the timing of the U.S. Census data collection, the 2000 U.S. Census data correlates with our review of 2011 data, while the 2010 U.S. Census data correlates with our review of 2012/2013 data. The demographic data is highlighted for each census date below. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Based on 2000 census data, the assessment area consists of 17 census tracts: zero are low-income, three (18 percent) are moderate-income, 13 (76 percent) are middle-income, and zero are upper-income. One census tract is designated as NA. The total population of the assessment area is 54,881 in 2011. The 2011 average median family income is \$38,818, and the HUD updated MSA median family income is \$51,400. The percentage of families below the poverty level is 9 percent. Owner-occupied units comprise 54.12 percent of total housing units.

Based on 2010 census data, the assessment area consists of 21 census tracts: zero are low-income, two (10 percent) are moderate-income, 14 (67 percent) are middle-income, and zero are upper income census tracts. Five census tracts are designated as NA. The total population of the assessment area is 54,424 in 2013. The 2013 average median family income is \$47,488, and the HUD updated MSA median family income is \$51,700. The percentage of families below the poverty level is 11 percent. Owner-occupied units comprise 50.32 percent of total housing units.

The bank's lending area includes 14 distressed or underserved tracts according to the FFIEC's list effective June 1, 2013. Five of the bank's seven lending facilities are located in these areas. According to the FFIEC list published on June 1, 2013, two census tracts in Baraga County are designated distressed due to unemployment, eight census tracts in Houghton County are designated as distressed due to poverty, and one census tract in Keweenaw County is designated distressed due to unemployment. The three census tracts in Ontonagon County are designated both distressed and underserved due to unemployment, population loss, and remote rural locations.

The local economy is characterized as stable. There is always a strong need for jobs in the area. Major employers include Michigan Technological University, Finlandia University, health care systems, and tourism related jobs. The unemployment rate in Michigan for 2011 was 10 percent, with unemployment rates in the bank's assessment area being generally higher. The 2011 annual unemployment rate for Baraga County is 19 percent, Houghton County is 10 percent, Keweenaw County is 13 percent, and Ontonagon is 16 percent. The unemployment rate in Michigan for 2012 was 9 percent, with unemployment rates in the bank's assessment area remaining higher. The 2012 annual unemployment rate for Baraga County is 16 percent, Houghton County is 9 percent, Keweenaw County is 12 percent, and Ontonagon is 13 percent.

Other financial institutions provide competition throughout the bank's assessment area. Seven other banks serve the four counties where the bank operates its branches. As of June 30, 2012, SNBT had a deposit market share of 52.34 percent, ranking first.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

SNBT's performance under the Lending Test is rated Satisfactory.

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

The bank's average loan-to-deposit (LTD) ratio is reasonable given its size, financial condition, and the credit needs of the community. The average quarterly LTD ratio for the bank since the last exam is 67.91 percent, which ranks first in a peer group of three area banks. SNBT has the highest level of average assets at \$543 million. The other bank's average assets were \$52 million and \$53 million. The average LTD ratios for the two other banks ranged from 39 percent to 54 percent over the same period. Over the last 17 quarters, SNBT had a LTD ratio high of 77.94 percent and a LTD ratio low of 57.96 percent.

#### **Lending in Assessment Area**

The bank originates a substantial majority of its loans to borrowers located within its assessment area. A review of the bank's primary loan products shows that 98 percent by number and 99 percent 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>										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgages	39	100.00%	0	0.00%	39	\$2,797	100.00%	\$0	0.00%	\$2,797
Commercial Loans	44	97.78%	1	2.22%	45	\$3,431	98.56%	\$50	1.44%	\$3,481
Totals	83	98.81%	1	1.19%	84	\$6,228	99.20%	\$50	0.80%	\$6,278

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

The overall distribution of borrowers reflects reasonable penetration among individuals of different income levels.

The borrower distribution of home mortgage loans in 2011 within AA is reasonable. The bank originated 15 percent of its mortgage loans to low-income borrowers and 65 percent to moderate-income borrowers.

<b>2011 Borrower Distribution of Home Mortgage Loans in the AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Mortgage	21.22%	15.00%	22.99%	65.00%	24.22%	10.00%	31.57%	10.00%

Source: Sample of 20 bank records from 2011 (verified by examiners) and U.S. Census Demographic Data.

The borrower distribution of business loans in 2011 within the AA is excellent. As the following table shows, the number of loans originated to businesses with revenues under \$1 million exceeds the demographic data. By number, the percent of small business loans originated is 90 percent. By dollar, the percent of small business loans originated is 80.95 percent.

<b>2011 Borrower Distribution of Loans to Businesses in the AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66.34%	2.97%	30.68%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.0%	100%
% of Bank Loans in AA by \$	80.95%	19.05%	0.0%	100%

Source: Sample of 20 bank records from 2011 (verified by examiners) and Dun & Bradstreet Business Demographic Data.

The borrower distribution of home mortgage loans for 2012/2013 within the AA is reasonable. The bank originated 5.26 percent of its mortgage loans to low-income borrowers and 63.16 percent to moderate-income borrowers. The demographics show 20.63 percent of assessment area families are low-income and 21.08 percent of assessment area families are moderate-income borrowers.

2012-2013 Borrower Distribution of Home Mortgage Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Mortgage	20.63%	5.26%	21.08%	63.16%	23.62%	15.79%	34.67%	10.53%

Source: Sample of 19 bank records from 2012/2013 (verified by examiners) and U.S. Census Demographic Data.

The borrower distribution of business loans for 2012/2013 within the AA is excellent. The number of loans originated to businesses with revenues under \$1 million exceeds the demographic data. By number, the percent of small business loans originated is 91.67 percent. By dollar, the percent of small business loans originated is 90.89 percent.

2012-2013 Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.78%	4.35%	22.87%	100%
% of Bank Loans in AA by #	91.67%	8.33%	0.0%	100%
% of Bank Loans in AA by \$	90.89%	9.11%	0.0%	100%

Source: Sample of 25 bank records from 2012/2013 (verified by examiners) and Dun & Bradstreet Business Demographic Data.

**Geographic Distribution of Loans**

The overall geographic distribution of loans reflects reasonable dispersion throughout the bank’s assessment area.

The geographic distribution of home mortgage loans in 2011 reflects reasonable dispersion throughout the bank’s assessment area. The bank originated 10 percent of its loans in moderate-income census tracts; this is slightly less than the demographics that show 16.69 percent of area owner occupied housing is located in moderate-income census tracts.

2011 Geographic Distribution of Home Mortgage Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	0.0%	0.0%	16.69%	10.00%	83.31%	90.00%	0.0%	0.0%

Source: Sample of 20 bank records from 2011 (verified by examiners) and U.S. Census Demographic Data

The geographic distribution of business loans in 2011 reflects reasonable dispersion throughout the bank’s assessment area. The bank made 20 percent of its loans to businesses located in moderate-income census tracts. This exceeds the demographics, which shows that 14.86 percent of the assessment area businesses are located in moderate-income census tracts.

2011 Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Business	0.0%	0.0%	14.86%	20.0%	84.51%	80.0%	0.0%	0.0%

Source: Sample of 20 bank records from 2011 (verified by examiners) and Dun & Bradstreet Business Demographic Data

The geographic distribution of home mortgage loans for 2012/2013 reflects excellent dispersion throughout the bank’s assessment area. The bank made 21.05 percent of its loans in moderate-income census tracts. This exceeds the demographics, which shows 11.52 percent of area owner occupied housing is located in moderate-income census tracts.

2012-2013 Geographic Distribution of Home Mortgage Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	0.0%	0.0%	11.52%	21.05%	88.48%	78.95%	0.0%	0.0%

Source: Sample of 19 bank records from 2012/2013 (verified by examiners) and U.S. Census Demographic Data

The geographic distribution of business loans for 2012/2013 reflects reasonable dispersion throughout the bank's assessment area. The bank made 16.67 percent of its loans for businesses located in moderate-income census tracts. This exceeds the demographics, which shows that 11.14 percent of the assessment area businesses are located in moderate-income census tracts.

2012-2013 Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Business	0.0%	0.0%	11.14%	16.67%	88.86%	83.33%	0.0%	0.0%

Source: Sample of 25 bank records from 2012/2013 (verified by examiners) and Dun & Bradstreet Business Demographic Data

### Responses to Complaints

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

### COMMUNITY DEVELOPMENT TEST

SNBT's performance under the Community Development Test is rated Satisfactory. Community development performance through community development loans, qualified investments, and services demonstrates adequate responsiveness to community development needs in the assessment area.

## Number and Amount of Community Development Loans

SNBT provided an adequate level of community development (CD) lending. The bank originated six qualifying CD loans totaling \$5.4 million, all benefiting the assessment area. These loans included:

- A loan in the amount of \$365,000 was made to renovate a building into seven residential units and one commercial unit. This loan provides affordable housing to low- and moderate-income individuals. Four (57 percent) of the residential units will be under the Michigan State Housing Development Authority (MSHDA) rental program for five years. This property is located in Houghton County, in a middle-income census tract designated as distressed due to poverty. In addition to the bank funding, the borrower also received a MSHDA residential low-income grant and a MSHDA conversion grant.
- A loan in the amount of \$240,000 was made to renovate a building into eight residential units. This loan provides affordable housing to low- and moderate-income individuals. All of the units will be under the MSHDA rental program for five years. This property is located in a moderate-income census tract located in Houghton County. In addition to bank funding, the borrower received a MSHDA grant.
- A loan in the amount of \$157,500 was made to rehab a property into multipurpose use including six apartments, a storefront, and office space. This loan will provide affordable housing to low- and moderate-income individuals. This property is located in a moderate-income census tract located in Houghton County. In addition to bank funding, the borrower received MSHDA grants totaling \$200,000.
- A loan in the amount of \$500,000 was made to purchase vacant land from Keweenaw Community Foundation and construct a new commercial building and purchase needed equipment. This property is located in a middle-income census tract designated as distressed due to poverty. This project helped revitalize and stabilize a distressed area. This new facility created six new job opportunities. In addition to bank funding, the borrower received a Michigan Economic Development Corporation, City of Houghton grant for \$110,000 and a MSHDA City of Houghton grant for \$70,000.
- A loan in the amount of \$3,829,000 was made to construct a small business center. This loan is 75 percent guaranteed by Small Business Association. This loan will guarantee new job creation of 40-70 people and promote additional small business opportunities. This property is located in a moderate-income census tract located in Houghton County.

- A loan in the amount of \$355,909 was made to purchase a new facility for a non-profit organization. The property is located in a middle-income census tract designated as distressed due to poverty in Houghton County. This organization provides human services programs for youth from disadvantaged backgrounds through a residential education programs.

SNBT also participates in the following loan programs that target or primarily benefit small businesses, low- and moderate-income individuals, and distressed and/or underserved areas.

- **Guaranteed Rural Housing Loans.** These loans are originated as part of the USDA Rural Housing Service Program. These loans are used to help low- and moderate-income individuals and households purchase homes in rural areas. There is no required down payment. Under this program, the bank originated 15 loans totaling \$1,148,427 during the evaluation period.
- **Property Improvement Program.** This program is offered by the MSHDA. The loans offered are for home improvements. Gross annual household income cannot exceed \$43,575 in rural areas and \$52,900 in urban areas. Interest rates are based upon gross household income. SNBT participates in approval and document preparation, along with an organization for the repair, improvement, and rehabilitation of existing housing. The gross annual household income cannot exceed the amounts listed on the MSHDA website. The bank has closed 16 loans totaling \$251,178 during the evaluation period.
- The bank made several loans to tribal business owners. These loans were made to businesses located on the tribal reservation in Baraga County. The bank made four loans totaling \$49,030. These funds were used to purchase equipment for the operation of local businesses.

### **Number and Amount of Qualified Investments**

The bank made an adequate amount of qualified investments and donations in its assessment area. During the evaluation period, SNBT made investments to 11 organizations within the assessment area totaling \$3,900. These donations supported economic development and social services for low-to-moderate individuals (LMI).

### **Extent to Which the Bank Provides Community Development Services**

SNBT provides an adequate level of community development services.

During the evaluation period, SNBT employees provided technical assistance and financial expertise to community development organizations. These organizations address assessment area needs for affordable housing, economic development, and

social services to low- and moderate-income individuals. The following are examples of the services provided:

- An employee serves on the Board of Directors for the Keweenaw Economic Development Alliance (KEDA). KEDA takes on projects that will set the stage for future job creation. Projects include creating three local revolving loan funds used as "gap" financing for business expansions and start-ups.
- Another employee serves on the Board of Directors for the Keweenaw Economic Development Alliance (revolving loan fund). The employee reviews applications and makes approval decisions on loans for working capital needs and business expansion that promotes job creation.
- An employee serves as a Director on the Superior Revolving Loan Fund. Decisions are made for application approval on loans used as gap financing for business start-ups or working capital needs.
- An employee at the Baraga branch worked with the Keweenaw Bay Indian Community to develop a loan program to provide education funds for tribal members for education not funded by the tribe. The maximum loan amount is \$5,000 and is secured by a tribal savings account. One borrower used the funds to attend trucking school.
- One employee serves as a committee member on the Houghton County Revolving Loan Fund. The employee reviews and approves applications for smaller working capital or equipment purchase loans primarily for start-up businesses. The committee meets quarterly to review portfolio and approval actions needed.
- One employee serves on the Keweenaw Peninsula Chamber of Commerce Board of Directors. The chamber supports small businesses in the community through various activities. Presentations are given which include practices on how to grow a business and sustain a business.
- One employee serves as a board member on the Baraga County Chamber of Commerce. The goal of the chamber is to attract and promote various sources of economic revitalization and development in Baraga County.
- A former employee served as a board member for the Baraga-Houghton-Keweenaw (BHK) Child Development Foundation. The purpose of the foundation is to receive and distribute funds for charitable and educational activities. The employee serves on the scholarship committee for low income/needs-based recipients.

- An employee provided financial counseling to future LMI homeowners for the Copper County Habitat for Humanity. The employee also provides closing services for this organization.

### **Responsiveness to Community Development Needs**

Given available opportunities, the bank's performance in meeting community development needs reflects reasonable responsiveness to the needs of its communities.

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

Pursuant to 12 CFR 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment areas by an affiliate whose loans have been considered as part of the bank's lending performance.

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