



PUBLIC DISCLOSURE

January 07, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank of Cheboygan
Charter Number 13522

303 N. Main Street
Cheboygan, MI 49721

Office of the Comptroller of the Currency
Cleveland Field Office
200 Public Square Suite 1610
Cleveland, OH 44114-2301

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 bank's loan-to-deposit ratio is reasonable given its size and financial condition, and the credit needs of its community.
- A substantial majority of the loans that the bank has originated are within its assessment area.
- The bank's geographic distribution of residential mortgage loans reflects reasonable dispersion throughout its assessment area. The bank's geographic distribution of business loans also reflects reasonable dispersion throughout its assessment area.
- The bank's distribution of residential mortgage loans reflects reasonable penetration to borrowers of different income levels, and its distribution of business loans reflects reasonable penetration to businesses of different sizes.

SCOPE OF EXAMINATION

This Community Reinvestment Act (CRA) Performance Evaluation covers the period from October 9, 2007, to January 7, 2013. In conducting our review, we used small bank CRA examination procedures. Because Citizens National Bank of Cheboygan (CNB) is not located in a metropolitan statistical area (MSA), we based our lending-related conclusions on a random sample of residential mortgage loans and business loans that the bank originated during 2010 and 2011. Residential mortgage loans and business loans are the bank's two largest loan portfolios, and we placed equal weight on analysis of these two portfolios in order to arrive at our conclusions. We also used 2000 U.S. Census data, 2011 business demographic data, internal bank reports, and other information from governmental websites for our assessment. Furthermore, we contacted two members of the community to better assess the needs of the community, and the opportunities for financial institutions to lend and provide services to the area.

DESCRIPTION OF INSTITUTION

CNB is a full-service community bank headquartered in Cheboygan, Michigan. It is a wholly owned subsidiary of CNB Corporation, a one-bank holding company. The bank has seven branches including its main office, with two in Cheboygan and one each in Indian River, Onaway, Pellston, Mackinaw City, and Alanson. All of the branches also have onsite automated teller machines (ATMs). The branch network helps to serve the banking needs of Cheboygan County, and portions of Emmet and Presque Isle Counties.

As of December 31, 2012, CNB had \$260.9 million in total assets and \$17.5 million in Tier One Capital, and its loan portfolio totaled \$110.6 million (42.4 percent of total assets). The bank offers a wide range of deposit and loan products. Loan products include residential mortgage

loans, home equity loans, construction loans, various consumer-type loans including personal, automobile, and recreational vehicle loans, and a wide range of business loans. Table 1 provides a breakdown of the overall loan portfolio by loan type. To better assist in meeting the needs of low- and moderate-income borrowers, small businesses, and others that may not normally qualify for a loan, the bank also offers loans under the USDA Rural Housing Development program, the Michigan State Housing Development Authority (MSHDA), and the Small Business Administration (SBA). CNB does not have any financial, legal, or other impediments restricting its capacity to serve its community. The bank received an Outstanding rating in its last CRA Performance Evaluation, dated October 9, 2007.

Table 1 – CNB’s Loan Portfolio as of December 31, 2012		
Type of Loan	Dollars of Loans (\$000s)	Percentage of the Portfolio
Residential Mortgage Loans (First Liens)	49,488	44.7
Commercial/Business Loans	43,400	39.2
Construction and Development Loans	9,461	8.6
Consumer Loans	4,683	4.2
Home Equity Loans and Credit Lines	3,455	3.1
Agricultural Loans	144	0.2
Total Loans Outstanding	110,631	100.0

Source: Citizens National Bank December 31, 2012 Call Report.

DESCRIPTION OF ASSESSMENT AREA

CNB’s AA is comprised of all of Cheboygan County and portions of Emmet and Presque Isle Counties, in the northern section of Michigan’s Lower Peninsula. Most of the AA consists of small towns and rural communities. The AA is bordered by both Lake Huron and Lake Michigan, and contains over 90 square miles of inland lakes and rivers. The area is a popular retirement and vacation destination, and tourism and related industries have a major economic impact in the AA.

The AA meets regulatory requirements, and does not arbitrarily exclude low- or moderate-income geographies. The AA is comprised of sixteen census tracts within the three counties that CNB serves, including all eight census tracts in Cheboygan County, five census tracts in Emmet County, and three census tracts in Presque Isle County. Based on 2000 U.S. Census data, none of the sixteen census tracts are low-income tracts, one is a moderate-income tract, fourteen are middle-income tracts, and one is an upper-income tract. All of the middle-income census tracts within the AA are designated as distressed or underserved geographies.

A number of financial institutions serve the AA, providing for a competitive banking environment. There are 13 banks and savings and loans with offices in the AA, including six midsize or large banks and seven community banks. There are also several credit unions that provide financial services within the AA. CNB has the largest deposit market share in Cheboygan, Emmet, and Presque Isle Counties, with 18.7 percent of the total deposits according to the June 30, 2012, FDIC Deposit Market Share Report.

Economic conditions in the AA are poor, with high rates of unemployment. As of December 31, 2012, the unemployment rates for Cheboygan County, Emmet County, and Presque Isle County were 13.7 percent, 12.7 percent, and 16.2 percent, respectively. In comparison, the national and State of Michigan unemployment rates were 7.8 percent and 8.9 percent, respectively, as of the same date. Furthermore, an elevated 10.6 percent of the households in the AA are living below the poverty level.

Based on 2000 U.S. Census data, the AA contains less than one percent of the state's population, with 52,219 residents in 14,902 families and 21,174 households. The number and percentage of families in each income level within the AA are as follows: 2,773 (18.6 percent) low-income families; 3,329 (22.3 percent) moderate-income families; 3,811 (25.6 percent) middle-income families; and 4,989 (33.5 percent) upper-income families. In aggregate, 6,102 families (40.9 percent) in the AA are designated low- or moderate-income. The 2011 Department of Housing and Urban Development updated median family income for Michigan non-metropolitan areas is \$51,400.

The AA has 5,908 non-farm businesses, according to 2011 Business Geodemographic Data, and 257 farm businesses. The total number of non-farm businesses with gross revenues of \$1 million or less is 4,483, and the total number of farm businesses with gross revenues of \$1 million or less is 253.

During our assessment of the bank's performance, we considered information from members of the community in order to obtain an understanding of the AA's needs and credit opportunities. We met with two community contacts, including one real estate company and one nonprofit organization serving small businesses. Both indicated the economy in Northern Michigan is poor, and that the area is in need of more employment opportunities. Other primary needs include more programs to assist low- and moderate-income borrowers with home purchases and home improvement, and financial institutions working with small businesses to better meet their credit needs.

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, and meets the standard for satisfactory performance. During the evaluation period of September 30, 2007, through September 30, 2012, the bank's average quarterly loan-to-deposit ratio was 62 percent. This was the second lowest of the six Northern Michigan banks and savings and loans of similar asset size (between \$59 million and \$385 million). The range for the five other institutions was from 45 percent to 106 percent. Despite its lower loan-to-deposit ratio, CNB's performance is reasonable when considering that the bank is an active residential mortgage lender that sells loans to the secondary market. CNB sold \$23.3 million in loans during 2009, \$18.4 million in 2010, \$15.9 million in 2011, and \$30.1 million in 2012 of \$30.1 million.

Lending in Assessment Area

CNB originates a substantial majority of its residential mortgage loans and business loans within its AA, exceeding the standard for satisfactory performance. Table 2 shows that out of a sample of 85 residential mortgage loans and business loans originated during 2010 and 2011, 81 were made within the bank's AA. The 81 loans represent 95.3 percent of the number of loans, and 87.7 percent of the dollar amount of loans, in the sample.

Type of Loan	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgage Loans	44	97.8	1	2.2	45	3,469	92.5	282	7.5	3,751
Commercial/Business Loans	37	92.5	3	7.5	40	3,620	83.6	711	16.4	4,331
Total	81	95.3	4	4.7	85	7,089	87.7	993	12.3	8,082

Source: Sample of 45 residential real estate loans and 40 business loans.

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

CNB's distribution of residential mortgage loans reflects reasonable penetration to borrowers of different income levels, including low- and moderate-income borrowers. The bank's distribution of business loans reflects reasonable penetration to businesses of different sizes, including businesses with gross annual revenues of \$1 million or less. The bank is an active business lender, including lending that displays community development characteristics.

Residential Mortgage Loans

Table 3 shows the distribution of a sample of 44 residential mortgage loans originated by CNB within the bank's AA. The distribution reflects reasonable penetration to borrowers of different income levels, including low- and moderate-income borrowers. Based on the sample, CNB made 22.7 percent of its residential mortgage loans to moderate-income borrowers. This compares closely to the 22.3 percent of families in the AA that are moderate-income. CNB also made 13.7 percent of its residential mortgage loans to low-income borrowers. While this is less than the 18.6 percent of the families in the AA that are low-income, we considered that 10.6 percent of household in the AA are living below the poverty level. It is difficult for this segment of the population to afford to purchase or maintain a home, which affects opportunities to lend to the low-income population. CNB made 27 USDA Rural Housing Development loans totaling \$2.0 million between 2008 and 2012, and 23 MSDHA loans totaling \$294,850 during the same period of time. This provides further support of the bank's efforts to assist borrowers that may not otherwise qualify for a mortgage loan.

Table 3 – Borrower Distribution of CNB’s Residential Mortgage Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
	18.6	13.7	22.3	22.7	25.6	25.0	33.5	38.6

Source: Sample of 44 residential mortgage loans; 2000 U.S. Census data; HUD Updated Median Family Income.

Business Loans

Table 4 shows the distribution of a sample of 37 business loans originated by CNB within the bank’s AA. The distribution reflects reasonable penetration to businesses of different sizes, including businesses with gross annual revenues of \$1 million or less. Based on the sample, CNB made 83.8 percent of its loans to business with gross annual revenues of \$1 million or less, while only 75.9 percent of the businesses in the AA are in that revenue category. Furthermore, CNB made 81.3 percent of its dollar volume of loans to businesses with gross annual revenues of \$1 million or less. Revenue information is unavailable or unknown for 21.9 percent of the businesses in the AA.

Table 4 – Borrower Distribution of CNB’s Business Loans				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	75.9	2.2	21.9	100
% of Bank Loans in AA by #	83.8	16.2	0.00	100
% of Bank Loans in AA by \$	81.3	18.7	0.00	100

Source: Sample of 37 business loans; 2011 Business Geodemographic Data.

Geographic Distribution of Loans

CNB’s geographic distribution of loans reflects a reasonable dispersion throughout its AA, and meets the standard for satisfactory performance. The dispersion of residential mortgage loans is reasonable, and the dispersion of business loans is more than reasonable.

Residential Mortgage Loans

Table 5 shows the geographic distribution of a sample of 44 residential mortgage loans originated by CNB within the bank’s AA. The distribution reflects a reasonable dispersion throughout the AA, given existing lending opportunities and the bank’s performance context. Based on the sample, CNB made 2.3 percent of its residential mortgage loans in the one moderate-income census tract within its AA. While this figure is less than the 4.9 percent of the AA’s owner-occupied housing that is located in this census tract, it is still considered reasonable.

Table 5 – Geographic Distribution of CNB’s Residential Mortgage Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
	0.0	0.0	4.9	2.3	87.4	97.7	7.7	0.0

Source: Sample of 44 residential real estate loans; 2000 U.S. Census data.

Business Loans

Table 6 shows the geographic distribution of a sample of 37 business loans originated by CNB within the bank’s AA. The distribution reflects a more than reasonable dispersion throughout the AA, given existing lending opportunities and the bank’s performance context. Based on the sample, CNB made 10.8 percent of its business loans in the one moderate-income census tract within its AA. This compares favorably to the 4.3 percent of the businesses in the bank’s AA that are located in that census tract.

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
	0.0	0.0	4.3	10.8	86.1	89.2	9.6	0.0

Source: Sample of 37 business loans; 2011 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 bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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