



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 26, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Howell
Charter Number 14144

101 East Grand River
Howell, MI 48843

Office of the Comptroller of the Currency

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

First National Bank in Howell (Bank) has a satisfactory record of addressing community credit needs. The factors supporting the Bank's rating include:

- The Bank's net loan-to-deposit ratio is reasonable;
- A substantial majority of loans are within the Bank's assessment area;
- The Bank's record of lending to businesses of different sizes is reasonable;
- The geographic distribution of small business loans is excellent;
- The Bank's community development (CD) performance, through its record of CD qualified investments and services, demonstrates adequate responsiveness to CD needs in its assessment area (AA).

Scope of Examination

We evaluated the Bank's performance within its delineated AA using intermediate-small bank (ISB) Community Reinvestment Act (CRA) full-scope procedures. According to the Bank's September 30, 2012 Report of Condition and Income, it had total assets of \$306 million. In the prior two calendar years, the Bank's assets equaled \$305 million and \$292 million in 2010 and 2011, respectively. The procedures used to assess the Bank's performance rating focused on its lending and CD activities. We evaluated the Bank's lending activities based on its loan-to-deposit ratio, AA concentration, geographic distribution of loans, lending to borrowers and businesses of different sizes, and compliance with anti-discrimination laws and regulations. In addition, we evaluated the Bank's CD activities relative to its qualified CD loans, investments and services. The evaluation period for assessing the Bank's lending activities covered January 1, 2010 through December 31, 2011. However, the evaluation period for assessing its CD activities covered November 17, 2004 through November 26, 2012.

The Bank's primary lending focus is lending to businesses, which includes commercial real estate and commercial and industrial lending. We 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, 2012, business loans comprised 67.4% of the loan portfolio. Though 1-4 family residential loans represented 11% of the Bank's loan portfolio, residential lending is not a lending focus. Additionally, consumer loans represent a small fraction of the Bank's lending, and it does not originate farm loans. Therefore, we did not consider 1-4 family residential, consumer and farm loans as part of the evaluation.

We relied on internal Bank reports to identify small loans to businesses. To ensure the accuracy of reports detailing small loans to businesses, we completed an integrity review of the data during the on-site evaluation. The information as presented was found to be accurate. We also utilized other supporting information while evaluating the Bank's CRA performance. The information included 2000 Census Data, Bank records, deposit market share data, and information from governmental web sites regarding the characteristics and economy of the

Bank's AA. We also used information from one community contact that was conducted prior to the evaluation. The Bank collects and reports loan data as required by the Home Mortgage Disclosure Act (HMDA). However, we did not use the HMDA data to evaluate the Bank's lending performance relative to the lending in its AA, geographic distribution of loans, and lending to borrowers and businesses of different sizes since home loans are not a primary lending focus of the Bank.

Description of Bank

The Bank is a full-service intrastate bank headquartered in Howell, Michigan. It is a wholly-owned subsidiary of FNBH Bancorp, Inc., a one-bank holding company, which is also located in Howell, Michigan. The Bank operates eight full-service branches located throughout Livingston County in the cities or townships of Howell, Brighton, Fowlerville, Hartland, and Whitmore Lake. Three of the Bank's eight branch offices are located in one of each of the county's three moderate-income census tracts (CT), and each branch office offers access to automated teller machines (ATMs). Additionally, seven of the eight branch offices offer drive through services. The Bank does not have any stand-alone ATMs or remote deposit taking facilities. It has not opened any branch offices since the previous CRA evaluation; however, it closed a branch located in a middle-income CT in 2009.

The Bank offers traditional banking products and services. Business loans are its primary lending product. The Bank offers some retail related loans; however, it stopped offering 1-4 family residential loans as of 2008 due to its financial capacity and access to secondary market investors to grant such loans. Alternatively, the Bank refers mortgage loan applications to a non-affiliated mortgage company. The Bank's consumer deposit related products and services include checking, savings, money market accounts, certificates of deposit, overdraft protection, online and telephone banking. Business related products and services include checking, business money market accounts, interest only lawyer's trust accounts (IOLTAs), sweep accounts, lockbox services, cash management services, and online banking. The Bank also offers a checking account product specifically to non-profit organizations, which includes quarterly or monthly statements, unlimited check clearing and deposits, no service fees and free online banking and e-Bill pay services. Other services include non-deposit investment products offered through the Bank's wealth management department.

According to the Bank's September 30, 2012 Consolidated Report of Condition and Income, its loan portfolio represented approximately \$187 million or 61% of total assets. The loan portfolio decreased approximately 21% since year-end 2010, and the general composition of the loan portfolio has not changed significantly.

Table 1 presents a categorization of the loan portfolio composition as well as support for determining the Bank's primary lending focus.

Table 1 – Loan Portfolio Composition as of September 30, 2012		
Loan Type	Dollars (\$000)	Percentage of Dollar
Construction and land development	9,208	4.9
Secured by farmland	328	0.2
Revolving open-end	5,447	2.9
Secured by first lien	20,513	11.0
Secured by junior lien	4,927	2.6
Multifamily	2,063	1.1
Non-farm non-residential	126,006	67.4
Total Real Estate Loans	168,492	90.2
Commercial and Industrial	13,576	7.3
Consumer	4,360	2.3
Other	647	.3
Less: Unearned income	204	0.0
TOTAL	186,871	100

Source: Report of Condition and Income for September 30, 2012

The Bank is operating under a Consent Order that includes capital requirements and is experiencing financial constraints, which have impacted its ability to reasonably meet the credit and CD needs of the AA. The Bank received a “Satisfactory” rating as of the last CRA evaluation dated November 17, 2004.

Description of Assessment Area

The AA meets regulatory requirements and does not arbitrarily exclude any moderate-income geographies. The Bank's delineated AA consists of Livingston County, which is one of five counties that comprise the Warren-Troy-Farmington Hills Metropolitan Division (MD). The Warren-Troy-Farmington Hills MD is one of two MDs within the Detroit-Warren-Livonia Metropolitan Statistical Area. Based on 2000 US Census data, the AA comprises 45 CTs, of which three are designated as moderate-income tracts. Thirty-two of the CTs are designated as middle-income tracts, and seventeen are designated as upper-income tracts. There are no low-income CTs within Livingston County. In addition, the AA contains no designated distressed or underserved middle-income areas.

A majority of businesses in the AA are small as measured by the number of employees and gross revenues. According to the 2011 D&B data, 73% of businesses located in the AA have less than \$1 million in gross annual revenues, and 74% of businesses have fewer than 5 employees. Only 1% of businesses are headquartered in the institution's AA, and 95% operate from a single location. The three primary business sectors within Livingston County include services, non-classifiable establishments, and construction. The five largest employers in Livingston County include Citizens Insurance Company of America, Howell Public Schools, Brighton Area Schools, Trinity Health, and Hartland Area Schools. Despite these facts, a large portion of the population works outside the county.

The AA economy is largely dependent on the auto industry. As a result, the AA has experienced weakened economic conditions and high unemployment due to the significant downturn in auto

manufacturing. Unemployment within the AA as of 2009 peaked at 12.3%. Since this time, the unemployment rate has gradually decreased from 10.6% in 2010 to 7.6% as of September 2012. These unemployment rates are below the State of Michigan's average unemployment rate; however, they are high. In addition to the high unemployment rates within the AA, economic forecasts indicate that the stabilization of payrolls, new products and investments in auto plants, and parts expansions will allow for a modest recovery. However, the rebound is anticipated to be much weaker than compared to other industries.

The Bank faces a great deal of competition from other banks, credit unions, and finance companies that have offices in the AA. According to FDIC deposit market share data, as of June 30, 2012 there are 14 financial institutions with 48 offices serving the assessment area, which does not include credit unions or other financial organizations. This data indicates that the Bank is ranked first in terms of deposit market share, holding approximately 13% of the total deposits. It also ranks fourth out of 27 institutions in relation to 2010 small business market share data that is based on the number and dollar amount of small business loans originated in the AA. Because the Bank does not focus on residential lending, it is not ranked in relation to the 2011 mortgage peer data within the AA.

We contacted a community action agency to assist us in identifying community needs and opportunities for CD activities in the AA. The contact indicated that the AA continues to experience high unemployment, foreclosures are still a crisis, and most homes are underwater. The contact also stated that Federal funding for foreclosure counseling has decreased. In addition, the State of Michigan recently terminated a state tax credit for donations to non-profit organizations, which the contact believes will hurt funding for community groups. The contact also stated that loan modifications are cumbersome, and clients are in need of additional loan modification or restructuring opportunities to remain in their homes. In addition, clients are struggling with high utility rates, the need for down payment assistance and low closing costs, and quality employment. However, the primary need within the AA is financial support for foreclosure prevention.

Conclusions with Respect to Performance Tests

LENDING TEST

The Bank's performance in meeting the credit needs of its AA based on the results of the lending test is satisfactory.

Loan-to-Deposit Ratio

The Bank's net loan-to-deposit (LTD) ratio is reasonable given its size and financial condition, and the credit needs of the community. The Bank's net LTD ratio, averaged for the previous 32 quarters from December 31, 2004 through September 30, 2012, totals 82%. Its maximum net LTD ratio during the evaluation period reached 94% as of June 30, 2007, and the minimum totaled 59% as of September 30, 2012. Historically, the Bank has maintained a high net LTD ratio. However, the decrease in the net LTD ratio is due to a plan to shrink the Bank and control lending as it continues to work under the Consent Order and improve its financial condition. We

also compared the Bank’s net LTD ratio to the net LTD ratio of peer banks during the same evaluation period. Our 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 78%. We found no other similarly situated institutions within the Bank’s AA to use as a comparison.

Lending in Assessment Area

The Bank originated a substantial majority of its small loans to businesses within the AA. As shown in Table 2, it originated more than of 80% of its small loans to businesses by number and 79% by dollar amount in 2010 and 2011 within the AA.

Table 2 - Lending in Livingston County										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business Loans 2010	191	82	41	18	232	27,274	79	7,385	21	34,659
Small Business Loans 2011	212	86	36	14	248	36,897	87	5,675	13	42,572
Totals	403	84	77	16	480	64,171	83	13,060	17	77,231

Source: FNBH small business loan reports.

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

The distribution of small loans to businesses reflects a reasonable penetration among businesses of different sizes. In determining the level of penetration among businesses of different sizes, we compared the percentage of the Bank’s small loans to businesses originated or purchased in 2010 and 2011 to the percentage of businesses located in the AA. As evidenced in Table 3, the Bank’s percentage of small loans to businesses, both by number and dollar amount, are near the percentage of businesses in the AA that report revenues of \$1 million or less. The Bank was able to attain these percentages despite factors such as the Bank’s size, legal and financial impediments, and level of competition impacting its ability to lend.

Table 3 - Borrower Distribution of Loans to Businesses in Livingston County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73	3	24	100%
% of Bank Loans in AA by #	71	29	0	100%
% of Bank Loans in AA by \$	69	31	0	100%

Source: The Bank’s Small Business Loans reports 2010 and 2011; Business Demographic Data 2011.

Geographic Distribution of Loans

The overall geographic distribution of small loans to businesses reflects an excellent dispersion throughout the AA. In evaluating geographic distribution, more weight is placed on lending in low- and moderate-income tracts in comparison to the Bank’s primary lending product.

However, the Bank’s opportunity to lend to businesses in any CT is limited due to its financial and legal impediments. Additionally, as discussed in the description of the AA section of this evaluation, the Bank’s AA has no low-income tracts, and none of the middle-income tracts are designated as distressed or underserved. Also, moderate-income CTs only compose 7% of the total number of tracts within the AA. Despite these factors and as illustrated in Table 4, the Bank originated 12% of its small loans to businesses in moderate-income tracts, which exceeds the 9% of businesses located in these tracts. Overall, the dispersion of the Bank’s loans to small businesses is consistent with the dispersion of businesses located within 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
Small Business Loans	0	0	9	12	65	68	26	20

Source: FNBH Small Business Loan Report 2010 and 2011; 2000 U.S. Census data.

Responses to Complaints

The Bank has not received any written complaints during the evaluation period related to its performance in meeting the credit and deposit needs of the AA.

COMMUNITY DEVELOPMENT TEST

The Bank’s performance under the CD test is rated satisfactory.

Number and Amount of Community Development Loans

The Bank’s CD lending record had an adequate impact on the lending test conclusions. Given the Bank’s capacity and the limited opportunities to participate in CD lending activities within the AA, it originated no CD loans during the evaluation period.

Number and Amount of Qualified Investments

The Bank’s CD investments represent an adequate responsiveness to the CD investment needs within the AA. During the evaluation period, the Bank made several qualified donations totaling \$104,047 to a wide-range of CD organizations involved in affordable housing, economic development, and providing a variety of services which benefited low- and moderate-income individuals and families as well as the economic development within the AA. The following are examples of some qualifying investments made to organizations over the review period.

- \$19,000 donated to a non-profit agency that enables low-income, elderly, and disabled persons to become more self-sufficient. The agency offers more than 70 different programs, including Head Start, Affordable Assistance, job training, and senior services.

- \$23,483 donated to a non-profit organization that provides comprehensive services for survivors of child abuse, domestic violence, and sexual assault. Services provided include financial support, shelter, counseling, and ongoing support groups.
- \$27,739 donated to a non-profit organization devoted to building affordable housing.

Extent to Which the Bank Provides Community Development Services

The Bank's CD services performance over the evaluation period reflects an adequate responsiveness to community CD services needs. During the evaluation period, employees participated in a few qualified service activities such as serving on the Board or as part of the finance committee providing financial counseling to a non-profit resource center. The services benefited low- and moderate-income individuals by providing guidance related to financial services. Employees participating on the Board or finance committee also provided financial guidance to the non-profit organization, which helped ensure the continued viability of the non-profit organization. In addition, employees have participated in several non-qualifying fundraising and other service activities that benefited low- and moderate-income individuals and non-profit organizations serving the AA.

The distribution of the Bank's branches throughout AA is good, and offers excellent accessibility to financial services for low- and moderate-income individuals as well as individuals and businesses located within the three moderate-income CT. The Bank maintains full service branch offices and ATMs in each of the three moderate-income CT within the AA. To further support access to financial services, the Bank also offers electronic and telephone banking services. In addition, it offers deposit products and services to organizations that assist low- and moderate-income individuals. As stated within the "Description of Institution" section of this evaluation, the deposit product and services include a free checking account specific to non-profit organizations. The non-profit organization checking account offers quarterly and monthly statements, unlimited check clearings and deposits, no service fees, and free online banking and e-Bill pay services. The Bank also offers IOLTAs, which are used to assist in providing legal help to low- and moderate-income individuals. As of the date of the CRA evaluation, the Bank had 17 IOLTAs totaling \$218,016 in deposits.

Responsiveness to Community Development Needs

CD performance demonstrates an adequate responsiveness to the CD needs of the Bank's AA, considering its capacity to participate in CD lending, investments, and services.

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 (bank) or Federal savings association's (FSA) 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.