



## **PUBLIC DISCLOSURE**

August 08, 2016

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

Hillsdale County National Bank  
Charter Number 14062

One South Howell Street  
Hillsdale, MI 49242

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 Lending Test is rated: Satisfactory.**

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

The major factors supporting the institution's rating:

- The distribution of loans to borrowers of different incomes and businesses of different sizes reflects reasonable penetration.
- The overall geographic distribution of loans reflects reasonable dispersion and meets the standard for satisfactory performance.
- The bank's loan-to-deposit ratio is more than reasonable and exceeds the standard for satisfactory performance.
- A substantial majority of the lending activity occurred within the bank's assessment areas (AAs). This performance exceeds the standard for satisfactory performance.
- The bank's community development (CD) performance demonstrates adequate responsiveness to the community development needs in its AAs.

## **Scope of Examination**

We evaluated Hillsdale County National Bank (HCNB or bank) using intermediate small bank Community Reinvestment Act (CRA) procedures. We evaluated the bank's performance in meeting the credit and community development needs of its assessment areas (AAs) based on the lending and community development tests, respectively. The evaluation period is April 15, 2013 (date of the previous examination) through December 31, 2015. Lending data analyzed for the purpose of the evaluation is from January 1, 2014 through December 31, 2015. The evaluation period for evaluating HCNB community development (CD) lending, investment, and service activities covered April 15, 2013 through December 31, 2015.

Based on the bank's lending practices over the review period, Reports of Condition and Income, and discussions with senior management, we determined the bank's primary lending products are home mortgages (i.e., home purchase, home refinance, and home improvement) and business loans. As a result of these findings, we evaluated the bank's lending performance based on home mortgage loans and a sample of 189 business loans originated or purchased during the evaluation period. However, within home mortgage activity, we weighted individual products based on loan volume. Therefore, we gave more weight to the bank's performance for home purchase and home refinance activities as compared to home improvement activity. Though HCNB offers consumer and agricultural loans, these products are not a lending focus of the institution. Therefore, we did not evaluate the bank's performance using these products, as an analysis would not be meaningful.

As described in the Description of Assessment Areas, HCNB has three AA. The bank's AAs include the Hillsdale AA, Jackson AA and Calhoun AA. The Hillsdale AA is not part of an MSA. The Jackson and Calhoun AAs are located in Metropolitan Statistical Areas (MSAs). We performed full-scope evaluations of the Jackson, MI MSA and Hillsdale non-MSA AAs as the majority of the bank's branches, deposits and loans were made in these AAs. A limited scope evaluation was performed for the Calhoun AA, as this AA consists of a single census tract (CT) where the bank's Homer, MI office is located.

We utilized other supporting information while evaluating the bank's CRA performance, including bank records, deposit market share data, and information from governmental sources regarding the characteristics and economy of the AAs. We also considered information derived from members of the community through community contacts with local organizations.

HCNB is subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA) and not required to report small business loan data. Prior to the examination, we tested the accuracy of the bank's reported HMDA data and determined the data to be reliable for this evaluation. We obtained the business lending data from bank records during the evaluation. In addition, we reviewed qualified CD loans, investments, and services to ensure that they meet the regulatory definition of CD. Our analysis of CD performance is based on qualified CD activities.

## **Description of Institution**

HCNB is a full-service intrastate community bank headquartered in Hillsdale, Michigan. HCNB serves Hillsdale and Jackson counties and portions of Lenawee and Calhoun counties. HCNB also has a subsidiary known as County National Financial Services, Inc., which offers life insurance products through a third-party vendor. HCNB is a wholly-owned subsidiary of CNB Community Bancorp Inc., also headquartered in Hillsdale, MI.

HCNB offers a broad range of loan products including home mortgage loans, commercial, consumer and agricultural loans. The bank also offers a wide range of deposit products along with telephone, internet, and mobile banking. As of December 31, 2015, the bank reported total assets of \$503 million. The bank's loan portfolio is comprised of real estate loans (77 percent), commercial loans (17 percent), consumer loans (4 percent), and other loans, including agricultural loans (2 percent). The majority of real estate loans are home mortgages.

HCNB operates twelve full-service branch offices, which includes the main office branch. Six of the twelve branch offices are located in the Hillsdale AA, servicing 52.37 percent of the bank's deposits. The bank has five branch offices located in the Jackson AA, servicing 41.88 percent of the deposits. There is one branch in the Calhoun AA, servicing 5.75 percent of the deposits. One office in the Hillsdale AA is located in a moderate-income census tract (CT). The bank also has one branch each located in a

low- and moderate-income CT within the Jackson AA and one branch in a moderate-income CT in the Calhoun AA. All offices are open similar hours and days. Excluding the Jackson West Courtland branch office, 11 of the 12 branches include drive-through services. In addition, the bank also operates one stand-alone drive-through facility. HCNB has 16 ATMs. Out of the 16 ATMs, seven are stand-alone ATMs, with three of the seven being full-service ATMs, and four cash-only dispensing ATMs. Five of the 16 ATMs are stand-alone ATMs located in the Hillsdale AA, with one standalone ATM each located in the Jackson and Calhoun AAs. Excluding the Jackson West Courtland, Adrian, and Homer branch offices, each branch has a full-service ATM on location. Since the prior CRA evaluation, HCNB opened a new branch in Adrian, Michigan, on July 5, 2016. No branches were closed or relocated during the evaluation period.

There are no legal or financial factors impeding the bank’s ability to help meet the credit needs of the communities it serves. HCNB received a rating of “Satisfactory” at the previous evaluation dated April 15, 2013.

### Description of Assessment Areas

As described in the Scope of Examination section, HCNB has three AAs. We completed full-scope reviews of the Hillsdale and Jackson AAs as the majority of the bank’s branch offices and full-service ATMs are located in these areas. Additionally, a majority of the bank’s deposits are also serviced in these two AAs. Each AA meets the requirements of the CRA and do not arbitrarily exclude low- or moderate-income areas.

#### Hillsdale AA

Demographic Information for the Hillsdale AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	15	0.00	6.67	86.67	6.67
Population by Geography	57,313	0.00	6.05	86.05	7.90
Owner-Occupied Housing by Geography	27,593	0.00	5.16	85.84	9.01
Businesses by Geography	3,052	0.00	4.98	89.02	6.00
Farms by Geography	434	0.00	7.83	88.48	3.69
Family Distribution by Income Level	15,484	17.62	19.72	23.44	39.22
Distribution of Low- and Moderate-Income Families throughout AA Geographies	5,781	0.00	8.44	86.46	5.10
Median Family Income	= \$51,627				
2015 FFIEC Adjusted Median Family Income	= \$54,700				
Households Below the Poverty Level	= 14.11%				
				Median Housing Value = \$123,062	
				County Non-Adjusted December	
				2015 Unemployment Rate:	
				3.9% Hillsdale; 3.6% Lenawee	

Source: 2010 U.S. Census and 2015 FFIEC updated MFI; Bureau of Labor Statistics.

The Hillsdale AA is a non-metropolitan statistical area comprised of all of Hillsdale County plus three adjacent census tracts (CTs) in Lenawee County. The AA has one moderate-income CT, 11 middle-income CTs, and one upper-income CT. There are no low-income CTs in the AA. Principal cities include Hillsdale and Jonesville.

Based on the 2010 US Census data, the population of AA is 57,313 persons with 27,593 owner-occupied housing units. As shown in the demographic table for the Hillsdale AA, most of the population as well as owner occupied housing are located within the middle-income tracts. The lowest percentage of the population and owner-occupied housing are within the one moderate-income tract of the AA. Additionally, the percentage of households living below the poverty level is high at 14.11 percent.

Competition within the AA is strong. Based on the June 30, 2015 Federal Deposit Insurance Corporation (FDIC) deposit market share data, there are 14 insured deposit institutions that operate a total of 39 offices in the market area. HCNB is ranked third with 16.79 percent share of the insured deposit market. Other major competitors include Old National Bank (25.36 percent) and First Federal Bank of the Midwest (17.52 percent). Based on 2015 peer mortgage aggregate data, there were 152 institutions that originated or purchased home mortgage loans within AA. In addition, based on this data, the bank is ranked first with a 11.72 percent market share.

The local economy improved during the evaluation period and the level of manufacturing jobs stabilized. Major employers include Tenneco Inc., Hillsdale College, Hi-Lex Controls Inc., Hillsdale Community Health Center, and Wal-Mart. Unemployment levels moderated during the evaluation period and are now below the State of Michigan non-seasonally adjusted unemployment rate. The unemployment rate peaked at 11.1 percent for Hillsdale County and 10.3 percent for Lenawee County in July 2012. The annual 2015 unemployment rate decreased to 3.9 percent and 3.6 percent for Hillsdale and Lenawee County, respectively. As previously noted, rates are below Michigan's 2015 statewide non-adjusted unemployment rate of 4.5 percent.

In assessing the bank's performance, we used information from members of the community to identify the needs of the local area. During the evaluation, we contacted an affordable housing organization. The organization noted opportunities exist for funding low-income housing tax credit projects or construction financing to support these projects. General operating support to fund existing programs in housing for the homeless, home counseling, financial literacy, foreclosure prevention, and youth education and workforce training is also needed.

Jackson AA

Demographic Information for the Jackson AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	38	18.42	13.15	42.11	23.68	2.63
Population by Geography	160,248	9.91	11.04	50.42	24.40	4.23
Owner-Occupied Housing by Geography	69,096	6.37	10.04	54.72	28.87	0.00
Businesses by Geography	8,258	15.31	14.65	45.13	24.73	0.18
Farms by Geography	505	1.78	3.56	60.99	33.66	0.00
Family Distribution by Income Level	41,508	20.69	18.28	21.31	39.72	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	16,176	16.75	16.09	51.07	16.09	0.00
Median Family Income 2015 Adjusted Median Family Income Households Below the Poverty Level	= \$57,732 = \$55,100 = 13.83%					Median Housing Value = \$130,873 2015 Non-Adjusted Unemployment Rate: 4.0%

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census and 2015 FFIEC updated MFI; Bureau of Labor Statistics.

The Jackson AA is comprised of Jackson County, which is part of the Jackson, MI MSA. The AA has seven low-income CTs, five moderate-income CTs, 16 middle-income CTs, nine upper-income CTs and one CT not designated with an income classification. Principal cities include Jackson, Spring Arbor and Michigan Center.

Based on 2010 US Census data, the population of the AA equated to 160,248 persons with 69,096 owner-occupied housing units. As shown in the demographic table for the Jackson AA, most of the population, as well as owner-occupied housing are located within the middle- and upper-income income tracts. The lowest percentage of the population and owner-occupied housing are within the low-income tracts of the AA. Additionally, the percentage of households living below the poverty level is high at 13.83 percent.

Competition within the AA is strong. Based on June 30, 2015 FDIC deposit market share data, there are 12 insured deposit institutions that operate a total of 44 offices in the market area. HCNB is ranked fourth with a 11.24 percent share of the insured deposit market. Other major competitors include Flagstar Bank (28.05 percent), Comerica Bank (24.50 percent) and FirstMerit Bank (18.85 percent). Based on 2015 peer mortgage aggregate data, there were 226 institutions that originated or purchased home mortgage loans within the AA. Based on this data, the bank is ranked third with 6.67% percent of the home mortgage market. Quicken Loans and Wells Fargo were ranked first and second, with 7.59 and 7.24 percent of the market, respectively.

The economy continued to improve during the evaluation period, and most job sectors have recorded increases in employment. Unemployment levels moderated during the evaluation period and are now below the State of Michigan non-seasonally adjusted unemployment rate. The Jackson County unemployment rate peaked at 10.1 percent in July 2012. The annual 2015 unemployment rate decreased to 4.0 percent, which is below Michigan's statewide non-adjusted rate of 4.5 percent. Major employers include Allegiance Health, Consumers Energy Corporation, Michigan Department of Corrections, and Great Lakes Health & Hospice.

In assessing the bank's performance, we used information from members of the community to identify the needs of the local area. During the evaluation, we contacted a community foundation. The purpose of the foundation is to connect people and resources to causes that strengthen and build the Jackson AA. The contact noted several community development opportunities. According to the contact, there is a strong need for funding to the foundation. In addition, there are several opportunities for bank participation on foundation committees or boards, which are integral in managing the funding that is contributed to the local charities, organizations, grants, endowment funds, and scholarships. The contact also identified opportunities to participate in education, and collaborating with a health improvement organization, as well as the Jackson County Cradle to Career Network or Nonprofit Network.

### Calhoun AA

HCNB's Calhoun AA includes an office in Homer, Michigan, located in the southeast corner of Calhoun County. Calhoun County is part of the Battle Creek, MI MSA. This AA consists of one moderate-income census tract.

The population of the AA is 3,015 persons and 748 families. FFIEC data estimates the MFI for the AA is \$53,400. Based on this information, 33.02 percent of the families are lower-income, 24.20 percent are moderate-income, 18.18 percent are middle-income, and 24.60 percent are upper-income. The demographics also indicate that 16.79 percent of the households are below the poverty level. The median home value for the AA was \$78,400.

A majority of the businesses in the AA are small. According to the 2015 D&B data, 72 percent of the businesses located in the AA have less than \$1 million in gross annual revenues and 76 percent of businesses have fewer than five employees. Economic conditions are different from HCNB's primary AA. As of July 2013, unemployment was at 9.4 percent and improved to 3.9 percent as of December 2015. Largest employers in the AA include Brembo North America, Homer Community Schools and the City of Homer.

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

### **LENDING TEST**

Overall, the bank's record of lending within the AAs meets the standard for satisfactory performance.

### Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is more than reasonable and exceeds the standards for satisfactory performance given the bank's size and financial condition, and credit needs of the bank's AAs. The bank's average quarterly loan-to-deposit ratio over the 11 quarters ending December 31, 2015 was 88.25 percent. This exceeded the 66.88 percent experienced by similarly situated institutions during the same time period.

### Lending in Assessment Area

HCNB's record of lending in the AA exceeds the standards for satisfactory performance. A substantial majority of lending activity occurred inside the bank's AA. As reflected in Table 1, approximately 87 percent of the number and 85 percent of the dollar amount of loans were originated or purchased within the bank's AA

Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	1,176	85.16	205	14.84	1,381	149,591	80.15	37,047	19.85	186,638
Business	189	96.43	7	3.57	196	65,944	98.69	878	1.31	66,822
Totals	1,365	86.56	212	13.44	1,577	215,535	85.04	37,925	14.96	253,460

Source: 2014 and 2015 HMDA Data and Business Loan Sample

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

The overall dispersion of loans to borrowers of different incomes and businesses of different sizes is reasonable and meets the standards for satisfactory performance.

#### Hillsdale AA

The dispersion of the bank's home mortgage loans demonstrates a reasonable penetration among borrowers of different income levels. In evaluating the borrower dispersion for home mortgage loans in the AA, we considered the number of households that live below the poverty level and the barriers that may have an impact on home ownership. It is especially difficult for this segment of the low-income population to afford and maintain a home. This has an impact on the opportunity to lend to the low-income populations of the community. We also gave consideration to the level of low- and moderate-income families, as well as competition within the AA. Refer to the Description of Assessment Areas section for demographic information. In addition, based on loan volume, we placed more weight on home purchase and home refinance activity.

As shown in Table 2, the bank's percentages for home purchase, home improvement and home refinance lending is below the percentages of AA families. However, the bank's home mortgage lending percentages exceed the percentages of moderate-income families within the AA. In addition, HCNB's home mortgage lending percentages are consistent with peer mortgage aggregate percentages. Based on 2014 and 2015 peer mortgage data, peer home purchase lending percentages to low- and moderate-income families totaled 8.77 and 25.48 percent, respectively. Peer's home refinance percentages for lending to low- and moderate-income borrowers equated to 8.17 and 20.30 percent, respectively. Peer home improvement percentages to low- and moderate-income borrowers totaled 12.50 and 24.04 percent, respectively.

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
Home Purchase	17.62	10.17	18.13	19.77	23.44	22.03	39.22	44.07
Home Improvement	17.62	7.14	18.13	21.43	23.44	25.00	39.22	42.86
Home Refinance	17.62	6.03	18.13	18.97	23.44	19.83	39.22	47.41

Source: 2014 and 2015 HMDA Data; 2010 U.S. Census data. Income information was not reported for 3.95% of home purchase, 3.57% of home improvement and 7.76% of home refinance loans within the Hillsdale AA.

The distribution of the bank's business loans reflects a reasonable penetration among businesses of different sizes. During the evaluation, we sampled 90 business loans originated or purchased by the bank. Of the 90 business loans, we identified 70 that were originated or purchased to non-farm businesses with annual revenues less than or equal to \$1 million. As shown in Table 3, the bank's percentage of business loans is slightly less than the percentage of non-farm businesses located within the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	81.42	4.62	13.96	100%
% of Bank Loans in AA by #	77.78	22.22	0.00	100%
% of Bank Loans in AA by \$	26.50	73.50	0.00	100%

Source: Business Loan Sample and 2014 Dun & Bradstreet data.

## Jackson AA

The dispersion of the bank's home mortgage loans demonstrates a reasonable penetration among borrowers of different income levels in the Jackson AA. In evaluating the borrower distribution for home mortgage loans in the AA, we considered the number of households that live below the poverty level and the barriers that may have an impact on home ownership. It is especially difficult for this segment of the low-income population to afford and maintain a home, which has an impact on the opportunity to lend to the low-income populations of the community. We also gave consideration to the level of low- and moderate-income families, as well as competition within the AA. Refer to the Description of Assessment Areas section for demographic

information. In addition, based on loan volume, we placed more weight on home purchase and home refinance activity.

As shown in Table 4, the bank’s percentages for home purchase, home improvement and home refinance lending is below the percentages of low-income families. However, the bank’s home mortgage lending percentages are near the percentages of moderate-income families within the AA. Though the bank’s percentage of lending to low- and moderate-income borrowers is less than peer mortgage aggregate percentages, HCNB’s home mortgage lending percentages are consistent with peer percentages. Based on 2014 and 2015 peer mortgage data, peer originated or purchased more home mortgage loans to middle- and upper-income borrowers. Peer home purchase lending percentages to low- and moderate-income families totaled 7.76 and 26.88 percent, respectively. Peer’s home refinance percentages for lending to low- and moderate-income borrowers equated to 7.10 and 18.56 percent, respectively. Peer home improvement percentages to low-income borrowers totaled 12.61 percent and 19.71 percent for moderate-income borrowers.

**Table 4 - Borrower Distribution of Home Mortgage Loans in Jackson AA**

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
Home Purchase	20.69	4.44	18.28	15.36	21.31	20.14	39.72	49.49
Home Improvement	20.69	7.89	18.28	15.79	21.31	5.26	39.72	60.53
Home Refinance	20.69	4.42	18.28	17.68	21.31	15.47	39.72	54.70

*Source: 2014 and 2015 HMDA Data; 2010 U.S. Census data. income information was not reported for 9.72% of home purchase, 12.86% of home improvement and 6.30% of home refinance loans within the Jackson AA.*

The distribution of the bank’s business loans reflects a reasonable penetration among businesses of different sizes. During the evaluation, we sampled 91 business loans originated or purchased by the bank. Of the 91 business loans, we identified 68 that were originated or purchased to non-farm businesses with annual revenues less than or equal to \$1 million. As shown in Table 5, the bank’s percentage of business loans is slightly less than the percentage of non-farm businesses located within the AA.

**Table 5 -Distribution of Loans to Businesses in Jackson AA**

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.48	6.39	16.13	100%
% of Bank Loans in AA by #	74.73	25.27	0.00	100%
% of Bank Loans in AA by \$	55.11	44.89	0.00	100%

*Source: Business Loan Sample and 2015 Dun & Bradstreet data.*

### Calhoun AA

HCNB’s distribution of home mortgage loans reflects a reasonable penetration of borrowers of different income levels. As shown in Table 6, the bank made no home

mortgage loans to low-income families in 2014 and 2015. However, the bank's percentage of home purchase and home refinance mortgage loans to moderate-income borrowers exceeds the percentage of moderate-income families within the AA. In addition, the bank's lending is consistent with peer mortgage aggregate percentages. Based on 2014 and 2015 peer mortgage aggregate data, peer only originated or purchased 75 loans within the AA during the evaluation period. Of the 75 loans, peer originated or purchased one home purchase and two home refinance loans to low-income borrowers. Peer also originated or purchased 15 home purchase loans and seven home refinance loans to moderate-income borrowers. Thus, peer mortgage aggregate percentages for home purchase equated to 1.33 and 20 percent for loans to low- and moderate-income borrowers, respectively. In relation to home refinance, peer mortgage aggregate percentages totaled 2.67 and 9.33 percent for low- and moderate-income borrowers, respectively.

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
Purchase	33.02	0.00	24.20	41.67	18.18	33.33	24.60	16.67
Home Improve	33.02	0.00	24.20	0.00	18.18	0.00	24.60	100.00
Refinance	33.02	0.00	24.20	33.33	18.18	33.33	24.60	33.33

**Source:** 2014 and 2015 HMDA Data. 2010 U.S. Census data. Income information was not reported for 8.33% of home purchase loans.

As shown in Table 7, HCNB's distribution of business loans in the Calhoun AA shows reasonable penetration among businesses of different sizes. The percentage of the bank's business loans is comparable to the number of businesses with gross annual revenues of \$1 million or less.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	77.71	7.83	14.46	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	25.40	74.60	0.00	100%

**Source:** Small Business Loan Sample and 2015 Dun & Bradstreet data.

## Geographic Distribution of Loans

The overall geographic distribution of loans is reasonable and meets the standard for satisfactory performance.

### Hillsdale AA

The geographic distribution of home mortgage loans in the Hillsdale AA shows a reasonable dispersion among geographies of different income levels. In drawing our

conclusions, we placed the most weight on home purchase and home refinance loans, as the bank only originated 28 home improvement loans during the evaluation period. We also gave consideration to the level of competition, as well as the AA having only one moderate-income CT. Additionally, only six percent of the population and five percent of the owner-occupied housing is located in the moderate-income tract.

As shown in Table 8, the percentage of the bank’s home mortgage loans originated or purchased in the moderate-income CT is slightly lower than the percentage of owner-occupied housing. However, the bank’s percentage of lending is consistent with the geographic composition of the AA with most lending in middle-income CTs. The bank’s percentage of lending is consistent with peer mortgage aggregate percentages. Based on 2014 and 2015 peer mortgage aggregate percentages, peer originated or purchased 2.52 percent of home purchase loans and 4.64 percent of home refinance loans in the moderate-income CT. As with HCNB, most peer lending was within the middle-income tracts of 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 Purchase	0.00	0.00	5.16	2.82	85.84	80.23	9.01	16.95
Home Improvement	0.00	0.00	5.16	3.57	85.84	92.86	9.01	3.57
Home Refinance	0.00	0.00	5.16	1.72	85.84	85.84	9.01	15.52

Source: 2014 and 2015 HMDA Data; 2010 U.S. Census data.

The distribution of business loans among geographies of different income levels is excellent. During the evaluation period, we sampled 90 business loans. As shown in Table 9, we determined that 17.78 percent of the business loans sampled were to businesses located or operating within the moderate-income CT of the AA. As a result, the bank’s percentage of business loans in moderate-income areas exceeds the percentages of businesses located in the moderate-income CT.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Business	0.00	0.00	4.98	17.78	89.02	82.22	6.00	0.00

Source: Business Loan Sample; 2015 Dun & Bradstreet business data.

### Jackson AA

The geographic distribution of home mortgage loans in the Jackson AA demonstrates a reasonable dispersion among geographies of different income levels. In drawing our conclusions, we placed most weight on home purchase and home refinance loans, as

the bank only originated 38 home improvement loans during the evaluation period. We also gave consideration to the level of competition within the AA.

HCNB’s lending is consistent with owner-occupied housing, as well as peer mortgage lending throughout the AA. As shown in Table 10, the bank’s percentages for home mortgage lending in low-income geographies is near the percentage of owner-occupied housing in the AA. In addition, the bank’s percentage of home mortgage lending in low-income CTs exceeds peer mortgage aggregate lending percentages, which equated to 2.37 and 3.06 percent for home purchase and home refinance lending, respectively. The bank’s percentages for home mortgage lending in moderate-income CTs is below the percentage of owner-occupied housing in those tracts. However, the bank’s percentage of lending is near peer mortgage aggregate percentages, which totaled 7.51 percent and 6.97 percent for home purchase and home refinance lending, respectively.

**Table 10 - Geographic Distribution of Home Mortgage Loans in Jackson 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 Purchase	6.37	5.46	10.04	5.12	54.72	41.64	28.87	47.78
Home Improvement	6.37	5.26	10.04	7.89	54.72	50.00	28.87	36.84
Home Refinance	6.37	5.52	10.04	6.63	54.72	47.51	28.87	40.33

Source: 2014 and 2015 HMDA Data; 2010 U.S. Census data.

The distribution of business loans among geographies of different income levels is excellent. The percentage of business loans in low-income and moderate-income areas significantly exceed the percentages of businesses located in those segments of the AA. This conclusion is based on a sample of 91 loans made to small businesses within the AA. Refer to Table 11 for the primary data used to assess the geographic distribution of business lending.

**Table 11 - Geographic Distribution of Loans to Businesses in Jackson AA**

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Business	15.31	17.58	14.65	21.98	45.13	30.77	24.73	29.67

Source: Business Loan Sample; 2015 Dun & Bradstreet business data. This table includes 0.18% of businesses located in an NA census tract

### Calhoun AA

The AA is comprised of one moderate-income CT. Therefore, a geographic distribution analysis of the bank’s lending in the AA was not performed because all loans would be originated or purchased within the moderate-income tract and an analysis would not be meaningful.

## **Responses to Complaints**

HCNB has not received any written complaints during the evaluation period regarding its performance in meeting the credit and deposit needs of its AAs.

## **COMMUNITY DEVELOPMENT TEST**

HCNB's community development (CD) performance reflects adequate responsiveness in meeting the CD lending, investment, and service needs of its AAs.

### **Number and Amount of Community Development Loans**

HCNB's qualified CD lending in all three AA reflects adequate responsiveness to CD lending needs.

#### Hillsdale AA

HCNB's CD loan activity within the Hillsdale AA reflects adequate responsiveness to CD credit needs. During the evaluation period, the bank originated three CD loans totaling approximately \$2.7 million. Two of the three CD loans provided funding to a local school district, in which a majority of students are low- or moderate-income, to purchase new buses. Additionally, the bank originated one CD loan that provided funding for a new medical clinic in Hillsdale, MI, which serves low- or moderate-income individuals and families.

#### Jackson AA

HCNB's CD loan activity reflects excellent responsiveness to CD credit needs in the Jackson AA. The bank originated six CD loans totaling approximately \$10.2 million. During the evaluation period, HCNB originated a working capital line of credit, as well as refinanced a CD commercial loan and provided additional funds to expand an assisted-living apartment complex comprised predominately of low- and moderate-income residents. In addition, HCNB originated a CD loan for the purposes of constructing a new dental facility and renewed a working capital line of credit to a medical organization serving low- and moderate-income individuals. The bank also renewed a line of credit for an organization providing low-income housing and provided a loan to a local school district, in which a majority of students are low- or moderate-income, to purchase five new buses.

#### Calhoun AA

HCNB's CD loan activity had a poor responsiveness to the CD loan needs of the AA. During the evaluation, the bank did not originate, purchase or renew any CD loans.

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

HCNB's qualified investment activity reflects adequate responsiveness to CD investment needs.

### Hillsdale AA

HCNB's CD investment activity reflects excellent responsiveness to CD investment needs within the AA. HCNB purchased three municipal bonds totaling \$3.2 million during the examination period. The bonds provided funds for a school, where a majority of students are low- or moderate-income, to build an addition and make site improvements. Prior to this evaluation period, HCNB purchased seven qualifying CD related municipal bonds totaling \$1.8 million that remain within its portfolio.

HCNB also made an investment in a low-income housing tax credit (LIHTC) fund. The purpose of the LIHTC fund is to invest in the construction of low-income housing unit within the state of Michigan, which also benefits the bank's AA. During the evaluation period, the bank made two investments totaling \$1 million in the LIHTC fund. Prior to the evaluation period, the bank made two investments totaling \$500,000 in the same LIHTC fund, which are still outstanding.

HCNB made 23 cash donations to six CD organizations totaling \$17,000. Organizations benefitting from these donations included those involved in affordable housing, economic development, and community services to low- and moderate-income individuals and households.

### Jackson AA

HCNB's CD investment activity reflects adequate responsiveness to CD investment needs within the Jackson AA. HCNB purchased one municipal bond totaling \$1.3 million during the evaluation period. The bond provided funding for capital improvements in the city of Jackson, which is comprised primarily of low- and moderate-income areas. In addition, HCNB made 24 cash donations to five CD organizations totaling \$25,000. Organizations benefitting from these donations included those involved in economic development and community services to low- and moderate-income individuals and households.

### Calhoun AA

The bank's CD investment activity within the Calhoun AA reflects an adequate responsiveness to the CD investment needs of the AA. During the previous evaluation period, HCNB purchased one municipal bond for \$1.3 million. The funds of the bond were utilized to make energy improvements to a local school, in which a majority of the students are low- or moderate-income. As of our evaluation, the bond was still outstanding.

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

HCNB provides an adequate level of community development services. The bank's branches, ATMs, products and services are accessible to individuals and areas of all income levels. The bank offers telephone, internet and mobile banking. In addition, the bank has one branch in a low-income census tract and two branches in a moderate-income census tract, representing 25 percent of the branch network. The bank also offers IOLTA accounts, which funds are utilized to provide legal help to low- and moderate-income individuals. As of December 2016, the bank had a total of 18 IOLTA accounts totaling \$784,000 in deposits.

### Hillsdale AA

The bank's CD service activities within the Hillsdale AA reflect an adequate level of CD services. CD services consist of volunteer and bank subsidized service efforts on the part of employees and bank management. Sixteen bank employees have provided CD services to five organizations specializing in economic development and community services to low- and moderate-income individuals. Four of these employees serve on the Board or Committees of these organizations. Twelve employees conducted financial education classes at local schools that have a majority of low- or moderate-income students.

### Jackson AA

The bank's CD service activities within the Jackson AA reflects an adequate level of CD services. CD services consist of volunteer and bank subsidized service efforts on the part of employees and bank management. Thirteen bank employees, including management, have provided CD services to five organizations specializing in affordable housing, and community services to low- and moderate-income individuals. Four of these employees serve on the Board or Committees of these organizations. Nine employees taught financial management skills at local schools that have a majority of low- or moderate-income students.

### Calhoun AA

HCNB's CD service activities within the Calhoun AA reflects an adequate level of CD services. During the evaluation period, branch employees provided financial education to students of a local school, in which a majority of the students are low- or moderate-income.

## **Responsiveness to Community Development Needs**

HCNB demonstrates adequate responsiveness through its CD loans, qualified investments, and services to the community.

## **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.