



**PUBLIC DISCLOSURE**

November 9, 2020

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

First National Bank of Michigan  
Charter Number 24637  
348 West Michigan Avenue  
Kalamazoo, MI 49007

Office of the Comptroller of the Currency  
Detroit Field Office  
26877 Northwestern Hwy, Suite 411  
Southfield, MI 48033

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, and should not 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.

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## Overall CRA Rating

**Institution’s CRA Rating:** This institution is rated **Satisfactory**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Outstanding**

The major factors that support this rating include:

- The Lending Test rating is based on a majority of lending occurring in the bank’s assessment areas (AAs), a reasonable loan-to-deposit ratio, excellent geographic distribution of small loans to businesses, and a reasonable distribution of small business loans among business of different sizes.
- The Community Development (CD) Test rating is based on excellent responsiveness to community needs through qualified CD loans, investments and services, and the bank’s capacity to participate.

### Loan-to-Deposit Ratio

Considering the bank’s size, financial condition, and the credit needs of its AAs, the First National Bank of Michigan (FNBM or bank) loan-to-deposit (LTD) ratio is reasonable.

The LTD ratio is calculated on a bank-wide basis and meets the standard for satisfactory performance. During the evaluation period, the bank’s average quarterly LTD ratio was 93.9 percent, with quarterly ratios ranging from a high of 100.9 percent in the first quarter of 2019 to a low of 84.3 percent in the first quarter of 2017. In comparison, the average LTD ratios for the four similarly situated institutions in the bank’s AAs ranged from 105.3 percent to 47.4 percent.

### Lending in Assessment Area

A majority of the bank’s loans are inside its AAs. This conclusion is based upon a statistical sample of 150 business loans originated between January 1, 2017, and December 31, 2019. The bank originated 82.7 percent by number and 80.0 percent by dollar amount of its total business loans within its AAs during the evaluation period. This level of lending had a positive impact on the bank’s overall geographic distribution of lending by income level.

Lending Inside and Outside of the Assessment Areas						2017-2019				
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Business Loans	124	82.7	26	17.3	150	30,138	80.0	7,558	20.0	37,696

*Source: Evaluation Period: 1/1/2017 - 12/31/2019 bank data. Due to rounding, totals may not equal 100.0*

## Description of Institution

FNBM is an intrastate bank headquartered in Kalamazoo, Michigan. The bank is a wholly owned subsidiary of First National Bancorp, a one-bank holding company also headquartered in Kalamazoo, Michigan. Non-banking affiliates include FNB Risk Management, Inc., a captive insurance company. As of December 31, 2019, the bank reported total assets of \$629.2 million and tier 1 capital of \$57.9 million, or 7.4 percent of assets.

FNBM's primary line of business is originating commercial loans, including Small Business Administration (SBA) loans. The bank also offers other loans, such as residential mortgages, home equity loans and lines of credit (HELOCs) and consumer loans. However, these loans are not a lending focus of the bank and tend to mostly supplement existing commercial relationships. FNBM offers a wide range of deposit products and services including checking, savings, money market accounts, certificates of deposit, and online and mobile banking. Business related deposit products and services include checking and money market accounts, merchant services and remote deposit capture.

FNBM's loan portfolio grew 37.9 percent during the evaluation period. As of December 31, 2019, the bank's loan portfolio totaled \$491.4 million, 78.8 percent of which was secured by real estate. The loan portfolio is comprised of 52.0 percent nonfarm nonresidential properties, 20.8 percent commercial and industrial loans, 10.5 percent construction loans, 9.7 percent multi-family loans, 6.6 percent residential mortgages, and 0.4 percent consumer loans.

During the evaluation period, FNBM had three AAs, which are contiguous. The bank's primary AA is identified as the Kalamazoo AA, which includes the entire Kalamazoo-Portage, Michigan Metropolitan Statistical Area (MSA). FNBM's other AAs include all of Kent county and parts of Ottawa and Allegan counties. Kent county, identified as the Kent AA, is part of the Grand Rapids-Kentwood, Michigan MSA. The portions of Ottawa and Allegan counties, identified as the Holland AA, includes 17 census tracts (CTs) in Ottawa county and five CTs in Allegan county.

There are no legal, financial, or other factors impeding FNBM's ability to help meet the credit needs of the AAs. The bank received a "Satisfactory" rating on their previous CRA performance evaluation dated November 20, 2017.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

This performance evaluation assesses FNBM's record of meeting the credit needs of its AAs. We performed this review using intermediate-small bank (ISB) CRA procedures, which included a lending test and a community development test. The lending test evaluates the bank's record of meeting the credit needs of the bank's AA through its business lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through qualified lending, investments and donations, and services. The evaluation period for lending and CD activity covers January 1, 2017, to December 31, 2019.

We evaluated FNBM's lending performance based on its primary loan product of business loans. While the bank offers multifamily, HELOCs, consumer installment, and residential mortgage loans, these products are not a primary focus for the bank. As a result, we did not consider these as part of our evaluation, as an analysis of this data would not be meaningful. However, we did consider any multi-family loans that qualify as CD loans, as part of our CD lending assessment.

### **Selection of Areas for Full-Scope Review**

We selected the bank's Kalamazoo and Kent County AAs for full-scope reviews, as these areas have a majority of the bank's deposits and branch offices. We completed a limited-scope review of the Holland AA, as this represents the bank's smallest market based upon loan originations and its single branch that holds and services 2.7 percent of the bank's total deposits. The AAs meet the requirements of the CRA and do not arbitrarily exclude any census tracts based on the designation of their income level or the demographic make-up of the census tracts. Refer to *Appendix A – Scope of Examination* for more information on these AAs.

### **Ratings**

The bank's overall rating is based on its lending and CD performance within the state of Michigan. The state rating is based on performance in the bank's AAs that received full-scope reviews. We gave more consideration to the bank's performance within the Kalamazoo AA when determining the overall state rating. In reaching our conclusion, we weighed information from the following performance criteria when analyzing the bank's primary lending products: lending within the AAs, lending to businesses of different sizes, and the geographic distribution of the bank's loans as well as CD activity. Refer to the "Scope" paragraph within the "State" section of this document for details regarding how any areas were weighted in arriving at the respective ratings.

### **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

## **State Rating**

### **State of Michigan**

#### **CRA rating for Michigan: Satisfactory**

**The lending test is rated: Satisfactory**

**The community development test is rated: Outstanding**

The major factors that support the rating for the State of Michigan include:

- The overall geographic distribution of the bank's small loans to businesses is excellent.
- The bank's overall distribution of small loans to businesses of different sizes is reasonable.
- The bank demonstrated an excellent responsiveness to the CD lending, investment, and service needs of the AAs.
- The bank's service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AAs.
- The bank did not receive any complaints regarding its performance in helping meet the credit needs within its AAs during the evaluation period.

### **Description of Institution's Operations in Michigan**

During the evaluation period, the bank operated five branch offices throughout its three AAs. Three branch offices are located in the Kalamazoo AA, which includes the bank's main office and holding company. The bank has one branch each in the Kent and Holland AAs. In March 2018, the bank's loan production office (LPO) in Holland, Michigan became a full-service branch office, resulting in the creation of the Holland AA during the evaluation period. The bank also operated an LPO in Lansing, Michigan during the evaluation period, which became a full-service branch in March 2020. The bank did not close any branch locations during the evaluation period.

All branch offices are open the same hours and days. Each of the branch offices offer deposit taking ATM services and night deposit services onsite. The Portage and West Kalamazoo branch locations in the Kalamazoo AA, also offer drive-through services. FNBM automatically refunds fees to customers using non-FNBM ATMs up to four times per month. This allows bank customers access to a significantly larger network of ATMs.

**Kalamazoo AA**

<b>Table A – Demographic Information of the Assessment Area</b>						
<b>Assessment Area: FNBM - Kalamazoo AA 2017-2019</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	57	12.3	19.3	42.1	24.6	1.8
Population by Geography	256,752	10.3	14.8	45.9	26.9	2.1
Housing Units by Geography	110,196	11.1	15.6	47.5	25.5	0.4
Owner-Occupied Units by Geography	64,302	4.9	11.1	50.7	33.3	0.1
Occupied Rental Units by Geography	36,039	19.3	22.6	43.4	13.8	0.8
Vacant Units by Geography	9,855	21.2	19.3	41.0	17.9	0.7
Businesses by Geography	14,357	8.4	20.3	46.1	24.6	0.6
Farms by Geography	566	3.5	12.5	55.1	28.4	0.4
Family Distribution by Income Level	60,438	20.5	16.6	20.0	42.9	0.0
Household Distribution by Income Level	100,341	24.6	15.7	17.0	42.6	0.0
Median Family Income MSA 28020 Kalamazoo-Portage, MI MSA		\$63,609	Median Housing Value			\$133,691
			Median Gross Rent			\$724
			Families Below Poverty Level			11.2%

*Source: 2015 ACS and 2019 D&B data. Due to rounding, totals may not equal 100.0%. (\*) The NA category consists of geographies that have not been assigned an income classification.*

The Kalamazoo AA includes all of Kalamazoo County and offers both urban and suburban neighborhoods, as well as rural areas, and is located in southwest Michigan. Based on 2015 American Community Survey (ACS) data, the AA consists of 57 CTs and includes seven low-income, 11 moderate-income, 24 middle-income, and 14 upper-income CTs. One CT has no income designation. During the evaluation period, the bank operated three branch offices throughout this AA, two in the city of Kalamazoo and one in Portage, Michigan. The main office is located in a moderate-income CT, while the West Kalamazoo branch is in a low-income CT. The Portage office is located in a middle-income CT.

The Kalamazoo AA is highly competitive, with a mixture of community banks and large banks serving the area. Per the June 30, 2019, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, 15 institutions operate in the AA, maintaining 54 offices. This does not include credit unions or other financial services providers. FNBM ranked third in terms of deposit market share, with 10.7 percent, or \$371.3 million of insured deposits. The largest competitors for deposits include PNC Bank, Fifth Third Bank, and Old National Bank, which hold a combined 54.5 percent of the deposit market. FNBM's deposit market share remained consistent throughout the examination period. Over 79.0 percent of the bank's total deposits are located in the Kalamazoo AA.

Significant competition for loans exists in the Kalamazoo AA. Based on 2018 peer business loan data, 70 lenders originated business loans within this AA. The top five business lenders are large banks, which account for 55.6 percent of the business lending in the AA. FNBM is not required to report its small business loan data. A majority of non-farm businesses in the AA are small as measured by the number of employees and gross revenues. According to 2018 Dun & Bradstreet (D&B) data, 80.5 percent of businesses located in the AA have less than \$1 million in gross annual revenues and 62.6 percent of businesses have fewer than five employees. Only 2.7 percent of businesses are headquartered in the AA while 85.8 percent operate from a single location. Major employers include Kalamazoo County and local government, Bronson Methodist and Ascension Hospitals, Western Michigan University (WMU), and Pfizer Corporation. The economic conditions in the AA generally fared better than the state of Michigan during the evaluation period due to the stabilizing presence of WMU and the AA’s status as a regional healthcare hub. Unemployment in January of 2017 for the AA was 5.0 percent, decreasing to 3.0 percent at year-end 2019. In comparison, the state unemployment rate ranged from 4.9 percent in 2017 to 3.9 percent in 2019.

We conducted one community contact, a national non-profit organization specializing in block-level residential development and revitalization of neighborhoods, to determine the credit and CD needs in the AA. There is a high level of competition in the AA from larger banks, such as PNC and Huntington, to participate, lend, or invest in CD activities. The contact provided detailed opportunities for bank involvement. Specifically, they identified needs for construction and rehab project lending for affordable housing, loan fund capital and grants.

**Kent AA**

<b>Table A – Demographic Information of the Assessment Area</b>						
<b>Assessment Area: FNBM - Kent AA 2017-2019</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	128	8.6	24.2	42.2	25.0	0.0
Population by Geography	622,590	6.2	22.1	41.9	29.8	0.0
Housing Units by Geography	248,224	5.4	23.6	43.2	27.7	0.0
Owner-Occupied Units by Geography	160,040	2.8	16.5	45.9	34.8	0.0
Occupied Rental Units by Geography	72,921	9.4	38.1	39.0	13.5	0.0
Vacant Units by Geography	15,263	13.4	29.6	35.2	21.8	0.0
Businesses by Geography	39,782	4.4	18.8	37.8	39.0	0.0
Farms by Geography	1,119	1.4	11.3	46.4	40.8	0.0
Family Distribution by Income Level	154,417	20.9	17.4	21.7	40.1	0.0
Household Distribution by Income Level	232,961	23.7	17.2	18.2	40.9	0.0
Median Family Income MSA - 24340 Grand Rapids-Kentwood, MI MSA		\$64,496	Median Housing Value			\$143,339
			Median Gross Rent			\$788
			Families Below Poverty Level			10.4%

*Source: 2015 ACS and 2019 D&B data. Due to rounding, totals may not equal 100.0%. (\*) The NA category consists of geographies that have not been assigned an income classification.*

The Kent AA includes all of Kent County and offers a combination of urban and suburban neighborhoods, as well as rural areas, and is located in west Michigan. Based on 2015 ACS data, the AA consists of 128 CTs and includes 11 low-income, 31 moderate-income, 54 middle-income, and 32 upper-income CTs. During the evaluation period, the bank operated one branch office in this AA, located in an upper-income CT.

Competition in the AA is very high. According to the June 30, 2019, FDIC Deposit Market Share Report, 26 institutions with 183 offices operate in the AA. This does not include credit unions or other financial services providers. FNBM ranked nineteenth in terms of deposit market share, with 0.49 percent, or \$84.5 million of insured deposits. The largest competitors for deposits include Fifth Third Bank, JP Morgan Chase, Huntington Bank, and Wells Fargo Bank, which hold a combined 49.4 percent of the deposit market. FNBM's deposit market share remained consistent throughout the evaluation period. The Kent AA accounts for 17.5 percent of the bank's total deposits.

Significant competition for loans exists in the AA. Based 2018 peer business loan data, 93 lenders originated business loans within the AA. The top five business lenders in the AA are large banks, which account for 50.6 percent of the business lending in the AA. A majority of non-farm businesses in the AA are small as measured by the number of employees and gross revenues. According to 2018 D&B data, 81.2 percent of businesses located in the AA have less than \$1 million in gross annual revenues and 62.9 percent of businesses have fewer than five employees. Only 2.9 percent of businesses are headquartered in the AA while 86.3 percent operate from a single location. Major employers include Kent County and local government, Spectrum Health, Meijer Inc., Mercy Health Systems, and Gentex Corporation. The economic conditions in the AA fared significantly better than the state of Michigan during the evaluation period due to growing biotech and healthcare centers and a diverse manufacturing base. Unemployment levels in January of 2017 for the AA was 3.9 percent, which decreased to 2.4 percent at year-end 2019. In comparison, the state unemployment rate ranged from 4.9 percent in 2017 to 3.9 percent in 2019.

We conducted one community contact, a national non-profit which builds, rehabs, and repairs homes for qualified low-income families, to determine the credit and CD needs in the AA. Significant competition exists in the AA from larger banks, such as Bank of America and Flagstar Bank, to participate, lend, or invest in CD activities. Based on community contact information, there are various opportunities to make CD investments and conduct CD services within the AA. The contact indicated the highest needs include sponsorship of their annual fundraiser and general operating support. Other needs include grants to build homes and volunteers for home building projects.

### **Scope of Evaluation in Michigan**

We evaluated FNBM's performance in the state of Michigan by analyzing the bank's lending performance and its CD lending, investment, and service performance from January 1, 2017, through December 31, 2019. We selected the bank's Kalamazoo and Kent AAs for full-scope

reviews as these areas have a majority of the bank's deposits and branch offices. We gave more consideration to the bank's performance within the Kalamazoo AA when determining the overall state rating, as this is the bank's primary AA and where the bank is headquartered. We completed a limited scope review of the Holland AA, as this represents the bank's smallest AA based on total deposits and considering the newness of the bank AA designation.

The procedures used to assess the bank's lending performance focused on the bank's primary lending product. Based on the bank's strategic plan, reports of lending activities over the evaluation period, Reports of Condition and Income, and discussions with senior management, we determined the bank's primary area of lending focus is business loans. For comparative purposes for business loans, we used 2017 and 2018 demographic and aggregate data, as 2019 information for business lending was not available at the time of our performance evaluation.

As the bank is not required to report small business lending data, we based our lending-related conclusions on a statistical sample of 150 business loans the bank originated during the evaluation period. The CD test evaluated the bank's responsiveness to the CD needs and opportunities in the AAs through CD loans, investments and services. In addition, the Office of Management and Budget (OMB) instituted changes to some MSA delineations that took effect January 1, 2018. The bank's AAs were not impacted by the OMB changes, allowing 2017 through 2019 data to be combined for analysis.

We also utilized other supporting information while evaluating FNBM's CRA performance. Additional supporting information included 2015 ACS data, 2017 through 2019 bank loan data, internal bank records, FDIC deposit market share data, and information from governmental websites regarding the characteristics and economy of the bank's AAs. We also considered information from community contacts to help assess the needs of the bank's AA and the opportunities for financial institutions to lend and provide services within that area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MICHIGAN**

### **LENDING TEST**

The bank's performance under the lending test in the state of Michigan is rated Satisfactory.

### **Conclusions for Areas Receiving Full-Scope Reviews**

Based upon a full-scope review, the bank's lending performance in the state of Michigan is reasonable.

### **Distribution of Loans by Income Level of the Geography**

FNBM exhibits excellent geographic distribution of loans to small loans to businesses.

In determining our conclusions, we gave consideration for opportunities to lend based on the number of CTs in each income level, the level of competition, and the number of non-farm businesses located in low- and moderate-income CTs within each AA. For example, better

lending opportunities exist in both the Kalamazoo and Kent AA's middle- and upper-income CTs as they contain 70.7 percent and 76.8 percent of businesses, respectively, as of the 2015 ACS.

### ***Small Loans to Businesses***

Refer to Table Q in *Appendix D* for the facts and data used to evaluate FNBM's geographic distribution of small loans to businesses.

### **Kalamazoo AA**

The geographic distribution of the bank's small loans to businesses reflects excellent penetration among low- and moderate-income CTs in the Kalamazoo AA.

Based on our statistical sample of small loans to businesses from 2017 through 2019, the bank's proportion of small business loans at 11.5 percent in low-income CTs exceeded both the percentage of businesses and percentage of aggregate small business lending at 8.4 percent and 8.0 percent, respectively. Additionally, the proportion of bank's small loans to businesses in moderate-income CTs at 21.3 percent was above the percentage of businesses at 20.3 percent and aggregate's percentage of lending to small businesses at 18.0 percent.

### **Kent AA**

The geographic distribution of the bank's small loans to businesses reflects excellent penetration among low- and moderate-income CTs in the Kent AA.

Based on our statistical sample of small loans to businesses from 2017 through 2019, the bank's proportion of small business loans at 7.1 percent in low-income CTs exceeded both the percentage of businesses and percentage of aggregate small business lending at 4.4 percent and 5.1 percent, respectively. Additionally, the proportion of the bank's small loans to businesses in moderate-income CTs at 21.4 percent was above the percentage of businesses at 18.8 percent and aggregate's percentage of lending to small businesses at 18.3 percent.

### **Distribution of Loans by Income Level of the Borrower**

FNBM exhibits a reasonable distribution of loans to businesses of different sizes, given the product lines offered by the bank.

In evaluating the borrower distribution of loans to businesses of different sizes, we considered the level of competition and its effect on limiting the bank's ability to lend, as well as the economic conditions in the AA.

### ***Small Loans to Businesses***

Refer to Table R in *Appendix D* for the facts and data used to evaluate FNBM's distribution of small loans to businesses.

## **Kalamazoo AA**

FNBM's borrower distribution of small loans to businesses reflects a reasonable penetration among businesses of different sizes within the Kalamazoo AA.

Based on our statistical sample of small loans to businesses, the bank's percentage of small loans to small businesses originated at 44.3 percent is significantly below the percentage of small businesses in the AA that report revenues of \$1 million or less at 80.3 percent. However, the bank's percentage of small loans to small businesses slightly exceeded the aggregate percentage of small loans to small businesses of 43.7 percent.

## **Kent AA**

FNBM's borrower distribution of small loans to small businesses reflects a reasonable penetration among businesses of different sizes within the Kent AA.

Based on our statistical sample of small loans to businesses, the bank's percentage of small loans to small businesses originated at 54.8 percent is significantly below the percentage of small businesses in the AA that report revenues of \$1 million or less at 80.0 percent. However, the bank's percentage of small loans to small businesses exceeded the aggregate percentage of small loans to small businesses of 41.1 percent.

## **Responses to Complaints**

FNBM did not receive any complaints pertaining to the CRA during the evaluation period.

## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, and considering that the Holland AA does not contain any low-income CTs, the bank's performance under the lending test in the Holland AA is consistent with the bank's overall performance under the lending test in the full-scope areas.

## **Community Development Test**

FNBM's performance under the CD test in the state of Michigan is rated Outstanding.

## **Conclusions for Areas Receiving Full-Scope Reviews**

Based on a full-scope review, the bank exhibits excellent responsiveness to CD needs in the state through CD loans, qualified investments, and CD services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for CD in the bank's AAs.

**Number and Amount of Community Development Loans**

Refer to the Community Development Loan table below for the facts and data used to evaluate the bank’s level of CD lending. The table includes all CD loans, including multifamily loans that also qualify as CD loans.

Community Development Loans				
Assessment Area	Total			
	#	% of Total #	\$(000's)	% of Total \$
<b>Full Review</b>				
Kalamazoo AA	15	65.2	24,127	53.7
Kent AA	8	34.8	20,811	46.3
<b>Limited Review</b>				
Holland AA	0	0	0	0

CD loan activity in the state of Michigan was excellent during the evaluation period, consisting of 23 loans totaling \$44.9 million, which benefitted the bank’s AAs. In drawing our conclusion, we considered the competition for CD loans within the bank’s AAs from larger financial institutions.

**Kalamazoo AA**

FNBM’s CD lending within the Kalamazoo AA was excellent. The bank originated 15 qualifying CD loans totaling \$24.1 million during the evaluation period. The bank originated 12 loans, totaling \$20.2 million, to entities constructing or rehabilitating affordable housing properties. The bank also originated two loans totaling \$2.3 million to organizations providing community services targeted to low- and moderate-income individuals, and made one qualifying SBA 504 Certified Development Company program loan for \$1.6 million.

**Kent AA**

FNBM’s CD lending within the Kent AA was excellent. The bank originated eight qualifying CD loans totaling \$20.8 million during the evaluation period. The bank originated five qualifying SBA 504 Certified Development Company program loans, totaling \$15.0 million. The bank also made two loans to finance the purchase or construction of affordable housing units, totaling \$5.5 million, and one loan for \$235,000 to a minority-owned business which created jobs in a low-income CT.

**Number and Amount of Qualified Investments**

Qualified Investments										
Assessment Area	Prior Period*		Current Period		Total				Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	% of Total #	\$(000's)	% of Total \$	#	\$(000's)
<b>Full Review</b>										
Kalamazoo	1	508	101	1,292	102	66.7	1,800	33.1		
Kent	7	1,402	26	435	33	21.5	1,837	33.7		
Statewide/Regional with Direct Benefit to AAs	4	1,080	1	500	5	3.3	1,580	29.0		
<b>Limited Review</b>										
Holland			13	231	13	8.5	231	4.2		

The Qualified Investment Table, shown above, set forth the information and data used to evaluate the bank's level of qualified CD investments. This table includes all CD investment, including prior period investments that remain outstanding as of our performance evaluation. Based on full-scope reviews, the bank's investment performance is Outstanding.

FNBM made a total of 153 qualifying investments and donations, including 12 prior period investments, totaling \$5.5 million. This equates to 9.5 percent of total tier 1 capital as of December 31, 2019.

### Statewide/Regional

FNBM funded a \$500,000 investment in a Low-Income Housing Tax Credit (LIHTC) that benefitted the Kalamazoo and Kent AAs during the evaluation period. The investment in the LIHTC helped create and preserve 663 affordable housing units statewide, benefiting low- and moderate-income geographies and individuals. Additionally, the bank had four prior period LIHTC investments with an outstanding value of approximately \$1.1 million as of December 31, 2019, which also benefitted the Kalamazoo and Kent AAs.

### Kalamazoo AA

FNBM's qualified investment activity represents excellent responsiveness to the CD needs of the AA. During the evaluation period, the bank made 101 qualifying investments and donations totaling \$1.3 million. Additionally, the bank had one qualified prior period investment outstanding, totaling \$508,000 as of December 31, 2019. Investments made during the evaluation period included:

\* Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

\*\* Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

- A \$500,000 investment in a Federal Home Loan Bank of Indianapolis affordable housing project, sponsored by a non-profit organization, which created 32 affordable apartment units in Kalamazoo, Michigan.
- Two municipal bond investments totaling \$290,000 for infrastructure improvements in a moderate-income area in Portage, Michigan.
- Ninety-seven qualifying CD donations totaling over \$106,000 that benefited various local community and non-profit organizations within the AA. The donations benefitted CD initiatives for affordable housing and social services to low- and moderate-income individuals.
- As noted above, the bank funded an LIHTC investment totaling \$500,000 in a broader, statewide region, which resulted in the creation or rehabilitation of 245 affordable housing units in the bank's AAs. Of these, 205 units were within the Kalamazoo AA.

### **Kent AA**

FNBM's qualified investment activity represents excellent responsiveness to the CD needs of the AA, when giving consideration for regional and prior period investments. During the evaluation period, the bank made 26 qualifying investments and donations totaling \$435,000. Investments made during the evaluation period included:

- A \$400,000 municipal bond issued for retiring existing bonds for the Comstock Park School District, where a majority of the students receive free or reduced lunches. The bonds were originally used for updating technology, constructing, remodeling, and furnishing improvements to the school district's facilities.
- Twenty-five qualifying CD donations totaling over \$34,000 that benefitted various local community and non-profit organizations within the AA. The donations supported CD initiatives for affordable housing and social services to low- and moderate-income individuals.
- As noted above, the bank funded an LIHTC investment totaling \$500,000 in a broader, statewide region, which resulted in the creation or rehabilitation of 245 affordable housing units in the bank's AAs. Of these, 40 units were within the Kent AA.

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

FNBM's overall performance in providing qualified CD services in Michigan is Outstanding. The services are focused on community services targeted to low- and moderate-income individuals. The bank's employees participated in a variety of organizational services, mostly in leadership roles, that benefited low- and moderate-income individuals.

## Retail Banking Services

### **Kalamazoo AA**

FNBM's branch distribution in the Kalamazoo AA is excellent. The bank operated three branch offices throughout the AA, with the main office located in a moderate-income CT and the West Kalamazoo branch located in a low-income CT. The Portage office is located in a middle-income CT, but is adjacent to a moderate-income CT. Overall, the bank's branch locations allow them to reasonably provide access to financial services to all of the AA's seven low-income CTs and eight of the 11 moderate-income CTs.

### **Kent AA**

FNBM's branch distribution in the Kent AA is adequate, considering the bank's limited branch network in the area. The bank operated one branch office in the AA, located in an upper-income CT. However, the branch is adjacent to three low-income and three moderate-income CTs. Overall, the bank's branch location allows them to reasonably provide access to financial services to six of the AA's eleven low-income CTs and eight of the 31 moderate-income CTs.

### **Kalamazoo and Kent AAs**

Alternative delivery systems are available to further support access to financial services, such as ATMs, and several free banking options, including online banking, mobile banking, retail remote deposit capture and bill pay. FNBM's hours and services offered do not vary in a way that would inconvenience portions of the AA and are comparable among locations regardless of the income level of the geography.

## Community Development Services

### **Kalamazoo AA**

FNBM demonstrated an excellent level of responsiveness to community needs by providing a variety of CD services through financial and technical expertise to non-profit groups involved in affordable housing, social services for low- or moderate-income individuals, financial literacy and economic development. The bank's officers and staff participated in twelve organizations within the AA through the following activities:

- Eight employees serve on the board of organizations focused on general social services for low- and moderate-income individuals, including distribution of assets to charities, providing assistance with energy bills and home repairs, a food pantry in a low-income area, and providing basic services to the homeless. Two employees served as president, while two others were treasurers.
- Two employees served on the loan committee of affordable housing organizations, while one other employee was on a finance committee.

- One employee served on the board of an organization focused on promoting economic development in the inner city, while another employee served on the SBA 504 loan committee of an economic development foundation.

## **Kent AA**

FNBM demonstrated an excellent level of responsiveness to community needs, considering its limited branch presence, by providing CD services through financial and technical expertise to non-profit groups involved in social services for low- or moderate-income individuals and economic development. The bank's officers and staff participated in five organizations within the AA through the following activities:

- Three employees serve on the board of organizations focused on general social services for low- and moderate-income individuals. From that group, one employee served as president, while one other was treasurer.
- One employee served as chairman of the board of the non-profit Michigan Certified Development Corporation, the leading provider of SBA 504 loans in the state. One other employee provided education on business lending for an organization focused on promoting economic development as a Community Development Financial Institution (CDFI) and providing small businesses loans via various loan products targeted to low- and moderate-income markets.

Additionally, employees participated in other non-qualifying volunteer, outreach, and fundraising service activities that benefitted low- and moderate-income individuals and non-profit organizations located within the bank's AAs.

## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the level of CD investments and services in the AA was adequate. FNBM's performance under the CD test in the Holland AA was weaker than the bank's overall performance under the CD test in the full-scope AAs, due to the lack of qualified CD loans made. The lack of qualified CD loans was attributed to the relative size and newness of the AA, the level of competition for CD opportunities, and the percentage of the bank's deposits in the AA. Performance in this AA did not materially impact the bank's overall CD test rating.

## Appendix A: Scope of Examination

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The following table identifies the time period covered in this performance evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term “full-scope”, and those that received a less comprehensive review designated by the term “limited-scope”.

<b>Time Period Reviewed:</b>	Lending Test (excludes CD loans): (01/01/17 to 12/31/19) Investment, Service Tests and CD Loans: (01/01/17 to 12/31/19)	
<b>Bank Products Reviewed:</b>	Loans to small business, CD loans, qualified investments, and CD services	
<b>List of Assessment Areas and Type of Examination</b>		
<b>Rating and Assessment Areas</b>	<b>Type of Exam</b>	<b>Other Information</b>
Michigan – Kalamazoo AA	Full-Scope	Kalamazoo County - Primary AA
Michigan – Kent AA	Full-Scope	Kent County - Secondary AA
Michigan – Holland AA	Limited-Scope	Partial Ottawa and Allegan Counties. AA designated in March 2018

## Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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Ratings First National Bank of Michigan			
Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
First National Bank of Michigan	Satisfactory	Outstanding	Satisfactory
State:			
Michigan	Satisfactory	Outstanding	Satisfactory

## Appendix C: Definitions and Common Abbreviations

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The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending (Aggt.):** The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

**Census Tract (CT):** A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

**Combined Statistical Area (CSA):** A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

**Community Development (CD):** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder’ and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

**Full-Scope Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-Scope Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income Individual:** Individual income that is less than 50 percent of the area median income.

**Low Income Geography:** A census tract with a median family income that is less than 50 percent.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rating Area:** A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier 1 Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Appendix D: Tables of Performance Data

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### Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30 of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

**Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s assessment area.

**Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and, 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

**Michigan Lending**

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography																			2017-19	
Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts			
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	
<b>Full Review</b>																				
Kalamazoo	61	17,873	49.2	3,832	8.4	11.5	8.0	20.3	21.3	18.0	46.1	39.3	42.8	24.6	27.9	31.1	0.6	0.0	0.2	
Kent	42	7,896	33.9	12,147	4.4	7.1	5.1	18.8	21.4	18.3	37.8	42.9	37.2	39.0	28.6	39.4	0.0	0.0	0.0	
<b>Limited Review</b>																				
Holland	21	4,319	16.9	2,190	0.0	0.0	0.0	11.3	9.5	13.5	76.6	81.0	76.6	12.1	9.5	9.9	0.0	0.0	0.0	
Source: 2019 D&B Data; 01/01/2017 - 12/31/2019 bank data; 2018 CRA aggregate data, "--" data not available. Due to rounding, totals may not equal 100.0%																				

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues												2017-19	
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available			
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans		
<b>Full Review</b>													
Kalamazoo	61	17,873	49.2	3,832	80.3	44.3	43.7	7.2	49.2	12.6	6.5		
Kent	42	7,896	33.9	12,147	80.0	54.8	41.1	8.2	42.8	11.7	2.4		
<b>Limited Review</b>													
Holland	21	4,319	16.9	2,190	77.8	61.9	38.9	9.7	23.8	12.6	14.3		
Source: 2019 D&B Data; 01/01/2017 - 12/31/2019 bank data; 2018 CRA aggregate data, "--" data not available. Due to rounding, totals may not equal 100.0%													