



## **PUBLIC DISCLOSURE**

June 17, 2013

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

First National Bank of Crystal Falls  
Charter Number 14269

125 Superior Avenue  
Crystal Falls, MI 49920

Office of the Comptroller of the Currency

Milwaukee Field Office  
1200 North Mayfair Road, Suite 200  
Wauwatosa, WI 53226

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

Major factors supporting this institution's rating include:

- A majority of loan originations are made within the bank's assessment area (AA).
- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of its AA.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

**SCOPE OF EXAMINATION**

We evaluated First National Bank of Crystal Falls' (FNB Crystal Falls) Community Reinvestment Act (CRA) performance using the Small Bank Lending Test. Data from the bank's primary loan products, home mortgage loans and business loans, were used to evaluate the bank's lending performance.

The evaluation period covered the date from the previous CRA examination, April 21, 2008 through June 17, 2013. The lending test evaluated home mortgage loans and business loans originated between January 1, 2011 and December 31, 2012. A random sample of loans within the bank's assessment area (AA) for each primary loan product was used in our analysis. The most recent demographic data available was also obtained.

**DESCRIPTION OF INSTITUTION**

FNB Crystal Falls is a \$72 million bank with its main office located in Crystal Falls, Michigan. The bank operates two branches; one is located in a grocery store in Crystal Falls, Michigan and the other branch is located in Sagola, Michigan. All three offices are located in middle-income Census Tracts (CT). The bank did not open any new branches nor did they close any during the evaluation period. Additionally, FNB Crystal Falls operates six Automated Teller Machines (ATMs) located throughout its AA. All locations have similar hours of operation. The institution is wholly owned by C.F.C.Bancorp, Inc; a one-bank holding company located in Crystal Falls, Michigan.

The bank's business strategy has been to serve the credit and depository needs of its local community. The bank offers traditional community bank products and services. As of March 31, 2013, the loan portfolio represented 47 percent of total assets. This is a decrease from the previous CRA evaluation where the loan portfolio represented 71 percent of total assets. The bank's loan growth has been decreasing while deposits have been increasing. Stable deposits have been invested in interest bearing bank balances. The bank's primary loan products are home mortgage loans (residential real estate) and business loans (commercial real estate and commercial & industrial). By dollar volume, the loan portfolio consists of commercial real estate (49 percent),

residential real estate (43 percent), consumer (6 percent), and all other loans (2 percent).

There are no legal or financial impediments limiting the bank's ability to meet community credit needs of its assessment area. FNB Crystal Falls was rated as Satisfactory at the prior evaluation dated April 21, 2008.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNB Crystal Falls has one AA located entirely in the Upper Peninsula of Michigan. The AA does not lie within a Metropolitan Statistical Area (MSA). The AA includes all of Iron County, all of Dickinson County, and one census tract (CT) in southwestern Marquette County. Based on the timing of the U.S. Census data collection, the 2000 U.S. Census data correlates with our review of 2011 data, while the 2010 U.S. Census data correlates with our review of 2012 data. The demographic data is highlighted for each census date below. The AA complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

According to 2000 census data, the assessment area consists of 13 census tracts: zero are low-income, two (15 percent) are moderate-income, 11 (85 percent) are middle-income, and zero are upper-income. The total population of the assessment area totaled 42,968. The average median family income is \$41,191 and the HUD Updated MSA median family income is \$51,400. The percentage of area families below the poverty level is 8 percent.

According to the 2010 census data, the assessment area consists of 13 census tracts: zero are low- and moderate-income, 11 (85 percent) are middle-income, and two (15 percent) are upper-income. The total population of the assessment area totaled 40,293. The average median family income is \$50,853 and the HUD Updated MSA median family income is \$52,100. The percentage of area families below the poverty level is 7 percent.

The local economy continues to be stagnant with minimal loan demand. There has been little change in industry or individual demographic composition, as there are no new businesses to the area. Major employers in the area include the hospitals, school districts, manufacturing companies, and Verso (paper mill-logging). The unemployment rate in Michigan for 2012 on an annual basis was 9.1 percent, with unemployment rates in the bank's AA being lower. The average unemployment rate for 2012 in Iron County was 8.6 percent, Dickinson County was 7.5 percent, and Marquette County was 7.5 percent.

Competition from other financial institutions is strong in the local market. The bank's competitors include multi-state banks, branches of state banks, and several credit unions. As of June 30, 2012, FNB Crystal Falls' market share for total deposits was 3.91 percent and ranked ninth out of 12 institutions. The balance of the market share is

divided among 12 institutions with market shares ranging from 27 percent down to 0.65 percent.

In assessing the bank’s CRA performance, we contacted a local area realtor to determine the community’s profile and performance of local financial institutions. The contact stated that local financial institutions are meeting the credit needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB Crystal Falls’ loan-to-deposit (LTD) ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s quarterly LTD ratio averaged 65 percent over the 19 quarters from March 31, 2008 to December 31, 2012, which ranks last in a peer group of five other similarly situated banks. However, FNB Crystal Falls also is the smallest bank in average asset size and had negative 3.74 percent for loan growth for 2012. The other banks had average assets from \$90 million to \$296 million. The average loan-to-deposit ratio for all the banks ranged from 72 percent to 87 percent over the same time period.

### Lending in Assessment Area

The bank originates a majority of its loans to borrowers within its AA. The random sample of the bank’s primary loan products shows 83.15 percent by number and 67.50 percent by dollar volume of loans were originated within the AA. It should be noted that a majority of the loans originated outside the bank’s AA are located in the Upper Peninsula of Michigan.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	48	82.76	10	17.24	58	4,565	72.29	1,750	27.71	6,315
Commercial	26	83.87	5	16.13	31	2,080	58.92	1,450	41.08	3,530
Totals	74	83.15	15	16.85	89	6,645	67.50	3,200	32.50	9,845

Source: Bank records (verified by examiners)

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

The overall distribution of borrowers reflects reasonable penetration among individuals of different income levels. We took into consideration the fact that the bank had negative loan growth in the past year.

The borrower distribution of home mortgage loans in 2011 within the AA is reasonable. The bank is slightly less than the area demographic for both low- and moderate-income

borrowers. The random sample shows that 16.0 percent of home mortgage loans were to low-income borrowers, while low-income families in the AA make up 20.10 percent. The bank made 16.0 percent of its loans to moderate-income borrowers and the demographics show 21.11 percent of assessment area families.

2011 Borrower Distribution of Home Mortgage Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	20.10%	16.00%	21.11%	16.00%	24.85%	16.00%	33.94%	52.00%

Source: Sample of 30 bank records from 2011 (verified by examiners) and U.S. Census Demographic Data.

The borrower distribution of business loans in 2011 within the AA is reasonable. As the following table shows, the number of loans originated to businesses with revenues under \$1 million is comparable to the demographic data. The sample includes all new business loans originated in 2011.

2011 Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69.90%	3.62%	26.48%	100%
% of Bank Loans in AA by #	66.67%	33.33%	0.0%	100%
% of Bank Loans in AA by \$	36.35%	63.65%	0.0%	100%

Source: Sample of 8 bank records from 2011 (verified by examiners) and Dun & Bradstreet Business Demographic Data.

The borrower distribution of home mortgage loans for 2012 within the AA is poor. The bank is lower than the area demographic for both low- and moderate-income borrowers. The random sample shows that 8.7 percent of home mortgage loans were to low-income borrowers, while the number of low-income families in the AA is 18.16 percent. Moderate-income borrowers from the sample totaled 8.7 percent, which is also below the 18.89 percent of moderate-income families in the AA. While the numbers of loans made to low- and moderate-income families is low, consideration is given to the fact that the number of households below the poverty level is 12.5 percent. These individuals would not qualify for conventional loan products.

2012 Borrower Distribution of Home Mortgage Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	18.16%	8.70%	18.89%	8.70%	24.97%	34.78%	37.99%	47.83%

Source: Sample of 23 bank records from 2012 (verified by examiners) and U.S. Census Demographic Data.

The borrower distribution of business loans for 2012 within the AA is reasonable. The number of loans originated to businesses with revenues less than \$1 million is less than the demographic data, but similar to 2011. The percent of assessment area businesses with revenues less than \$1 million is 73.68 percent. The bank made 65.0 percent of loans by number and 59.61 percent by dollar.

2012 Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73.68%	4.75%	21.56%	100%
% of Bank Loans in AA by #	65.00%	35.00%	0.0%	100%
% of Bank Loans in AA by \$	59.61%	40.39%	0.0%	100%

Source: Sample of 20 bank records from 2012 (verified by examiners) and Dun & Bradstreet Business Demographic Data.

### Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the AA. Consideration is given to the fact that the assessment area no longer includes low- or moderate-income census tracts based on 2010 census data. We also took into consideration that the bank has had negative loan growth in the previous year.

The geographic distribution of home mortgage loans in the bank's AA based on 2011 data is poor. The random loan sample used did not contain any home mortgage loans located in the bank's moderate-income CTs. The demographic data suggests that 13.07 percent of the AA's owner occupied housing are located in the moderate-income CTs. Geographically there are other financial institutions that are more accessible for customers and businesses.

2011 Geographic Distribution of Home Mortgage Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	0.0%	0.0%	13.07%	0.00%	86.93%	100.00%	0.0%	0.0%

Source: Sample of 30 bank records from 2011 (verified by examiners) and U.S. Census Demographic Data

The geographic distribution of business loans in the bank’s AA is poor. The random loan sample used did not contain any business loans located in the bank’s moderate-income CTs. The demographic data suggests that 8.74 percent of the AA’s businesses are located in the two moderate-income CTs.

2011 Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	0.0%	0.0%	8.74%	0.0%	91.26%	100.0%	0.0%	0.0%

Source: Sample of 8 bank records from 2011 (verified by examiners) and Dun & Bradstreet Business Demographic Data

Due to the changes in the 2010 census data, the bank’s assessment area now consists of only middle- and upper- income census tracts. There are no low- or moderate-income census tracts in the assessment area, therefore a geographic distribution analysis for 2012 would not be meaningful.

**Responses to Complaints**

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

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

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

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