



## **PUBLIC DISCLOSURE**

June 1, 2016

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Citizens National Bank of Cheboygan  
Charter Number 13522

303 N. Main Street  
Cheboygan, MI 49721

Office of the Comptroller of the Currency

200 Public Square Suite 1610  
Cleveland, OH 44114-2301

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

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

The major factors supporting this rating are:

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

## **SCOPE OF EXAMINATION**

This Performance Evaluation covers the period of January 8, 2013, to June 1, 2016. In conducting our review, we used small bank Community Reinvestment Act (CRA) examination procedures. Because Citizens National Bank of Cheboygan (CNB) does not report lending data, we based our lending-related conclusions on a random sample of 50 residential mortgage loans and 48 business loans that the bank originated from January 1, 2014, to May 31, 2016. Residential mortgage loans and business loans are the bank's two primary lending products. Equal consideration was given to performance related to these two products in order to arrive at our conclusions. We also used 2010 U.S. Census data, 2015 business demographic data, internal bank reports, and other information in our assessment. Furthermore, we contacted two members of the community in order to help assess the community's needs, and the opportunities for financial institutions to lend and provide services to the area.

## **DESCRIPTION OF INSTITUTION**

CNB is a full-service community bank headquartered in Cheboygan, Michigan. It is a wholly-owned subsidiary of CNB Corporation, a one-bank holding company. The bank has eight branches including its main office, with two in Cheboygan and one each in Indian River, Onaway, Pellston, Mackinaw City, Alanson and Petoskey. All of the branches also have onsite automated teller machines (ATMs). To help meet consumer and business banking needs, the bank opened its Petoskey branch in 2015, and expanded its assessment area to include all of Emmet County and portions of Charlevoix County. The bank also serves all of Cheboygan County, and portions of Presque Isle County.

As of December 31, 2015, CNB had \$271.4 million in total assets and \$24.5 million in Tier 1 capital, and its loan portfolio totaled \$124.9 million. The bank offers a wide range of deposit and loan products. Loan products include residential mortgage loans, home equity loans, construction loans, and various other consumer loans products in addition to commercial and business loans. Table 1 provides a breakdown of the bank's overall loan portfolio by loan type. The bank also offers loans under the United States Department of Agriculture (USDA) Rural Housing Development program, the Michigan State Housing Development Authority (MSHDA), and the Small Business Administration (SBA) to assist in meeting the needs of low- and moderate-income borrowers, small businesses, and others that may not normally qualify for a loan. CNB does not have any financial, legal, or other impediments restricting its capacity to serve its community. The bank received a Satisfactory rating in its last CRA Performance Evaluation, dated January 7, 2013.

Type of Loan	Dollars of Loans (\$000s)	Percentage of the Portfolio
Commercial/Business Loans	54,128	43.33
Residential Mortgage Loans (First Liens)	52,820	42.28
Construction and Development Loans	7,916	6.33
Consumer Loans	6,520	5.22
Home Equity Loans and Credit Lines	3,444	2.76
Agricultural Loans	100	0.08
Total Loans Outstanding	124,928	100.00

Source: Citizens National Bank December 31, 2015, Report of Condition.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB's Assessment Area (AA) is comprised of all of Cheboygan and Emmet Counties, and portions of Charlevoix and Presque Isle Counties (which are the northernmost counties in Michigan's Lower Peninsula). The AA is not part of any Metropolitan Statistical Area (MSA), and is primarily rural in nature consisting of farms, small towns and villages. The largest cities in the AA are Cheboygan and Petoskey. The area is a popular retirement and vacation destination, and tourism and related industries have a major economic impact in the AA. Due to development and growth in Charlevoix and Emmet Counties, CNB opened a Petoskey branch and expanded its assessment area in 2015.

Cheboygan County covers approximately 885 square miles, of which lakes and rivers comprise 20 percent. The county is bordered on the east by 32 miles of shoreline on Lake Huron. Since 2010, the U.S. Census Bureau estimates that the overall population of the county has declined by 2.8 percent. The largest industries include retail trade, social services, and recreation. Some of the larger employers in the county include McLaren Northern Michigan Hospital - Cheboygan Campus, Tube Fab Engineering, Wal-Mart, and Vital Care Home Health Services. The small business climate in Cheboygan County is poor, with the county losing small businesses and increased

competition among financial institutions over the remaining businesses in the area. In addition, the Cheboygan School system recently closed three schools.

Emmet County covers approximately 465 square miles of land, with over 60 miles of shoreline on Lake Michigan. The area has experienced 1.4 percent population growth since 2010. Much of the economic growth in the area has been in the service related sectors, with some industrial expansion in new construction of commercial properties. The City of Petoskey is considered the county's center of commerce and employment. Some of the larger employers in the county include McLaren Northern Michigan, LTBB Gaming Casino, and Bay Harbor, Inc.

Presque Isle County covers approximately 659 square miles of land, with 72 miles of shoreline on Lake Huron. The county's population has declined by 4.0 percent since 2010, and the unemployment rate continues to be near 10 percent. CNB's AA includes the three census tracts adjacent to Cheboygan County, and does not include the county seat of Rogers City. This area's economy is focused on tourism, with numerous beaches as well as fishing, hunting, boating, and outdoor winter activities. The county's largest employers include Carmeuse Lime and Stone in Rogers City.

Charlevoix County covers approximately 416 square miles of land along Lake Michigan, and is the fourth-smallest county in Michigan. The county's population has increased by 1.1 percent since 2010. CNB's AA includes the seven census tracts adjacent to Emmet County on the north side of Lake Charlevoix, and includes the county seat of Charlevoix and Boyne City. The area is a popular recreation destination for hunting, fishing, mushroom picking, festivals, and downhill skiing. The primary industries in the region include manufacturing, healthcare, and trades and services (primarily related to tourism).

The bank's AA meets regulatory requirements, and does not arbitrarily exclude low- or moderate-income geographies. During our evaluation, we also reviewed the Office of Management and Budget's MSA delineation changes that took effect in January 2014, and determined that they did not impact the bank's AA. The AA is comprised of twenty-six census tracts within the four counties that CNB serves, including all eight census tracts in both Cheboygan and Emmet Counties, seven census tracts in Charlevoix County, and three census tracts in Presque Isle County. Based on 2010 U.S. Census data, none of the twenty-six census tracts are low-income tracts, three are in moderate-income tracts, eighteen are middle-income tracts, and five are upper-income tracts. The majority of the middle-income census tracts within the AA were designated as distressed or underserved geographies during portions of the evaluation period.

The AA has a competitive banking environment. The 12 banks and savings and loan institutions that have offices in the AA include a mix of large banks, community banks, and credit unions. CNB has the largest deposit market share in Cheboygan, Emmet, Charlevoix and Presque Isle Counties, with 13.9 percent of the total deposits according to the June 30, 2015, FDIC Deposit Market Share Report. This is down five percent compared to 2012, due to the expansion of the bank's AA.

Northern Michigan experiences a seasonal influx of workers related to the tourism and agricultural markets. Overall, economic conditions in Cheboygan and Presque Isle counties are poor, with high rates of unemployment. Table 2 provides a comparison of non-seasonally adjusted annual unemployment rates for the four counties in the bank’s AA, as well as national and state rates as of December 31, 2015. Since December 31, 2013, the unemployment rate for Emmet County has declined from 11.7 percent to 6.4 percent, and the rate for Charlevoix County has declined from 10.1 to 5.0 percent. These represent 45.3 percent and 51.0 percent declines, respectively, and are now similar to the state and national unemployment. Cheboygan County’s unemployment rate declined from 15.0 to 11.2 percent over the same period of time, while Presque Isle County’s rate declined from 14.5 percent to 9.3 percent. These represent 25.3 percent and 35.8 percent declines, respectively, and remain significantly above the state and national unemployment rates. Furthermore, an elevated 12.1 percent of the households in the AA are living below the poverty level.

	Unemployment Rate (not seasonally adjusted)
National Rate	5.3%
State of Michigan	5.4%
Charlevoix County	5.0%
Cheboygan County	11.2%
Emmet County	6.4%
Presque Isle County	9.3%

Source: December 31, 2015, U.S. Bureau of Labor Statistics.

Based on 2010 U.S. Census data, the AA contains less than one percent of the state’s population, with 78,768 residents, 23,071 families, and 34,611 households. The number and percentage of families in each income level within the AA are listed in Table 3. In aggregate, 8,372 families in the AA are designated low- or moderate-income. Additionally, 18.7% of the AA’s residents are 65 or older, compared to 12.5% of the statewide population. The 2015 Department of Housing and Urban Development updated median family income for Michigan non-metropolitan areas is \$54,263.

Family Income Level	Number of Families	Percentage of Families
Low-Income	4,002	17.35
Moderate-Income	4,370	18.94
Middle-Income	4,890	21.19
Upper-Income	9,809	42.52
Total Families	23,071	100.00

Source: 2010 U.S. Census data.

According to 2015 Business Geodemographic Data, the AA has 6,744 non-farm businesses and 326 farm businesses. The total number of non-farm businesses with

gross revenues of \$1 million or less is 5,775 (85.6 percent), and the total number of farm businesses with gross revenues of \$1 million or less is 321 (98.5 percent).

During our assessment of the bank's performance, we considered information from members of the community in order to obtain an understanding of the AA's needs and credit opportunities. We interviewed two community contacts, both of whom work for affordable housing community action agencies. They indicated that Northern Michigan is in need of more employment opportunities, as double-digit unemployment remains in several counties and low-income levels continue to be the theme in the area. Other primary needs include more flexible home loan programs to assist low- and moderate-income borrowers, affordable home improvement/rehabilitation products, and construction financing for upcoming housing developments.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

CNB's loan-to-deposit ratio is reasonable, given the bank's size and financial condition and the credit needs of its community, and meets the standard for satisfactory performance. During the evaluation period of January 8, 2013, through December 31, 2015, the bank's average quarterly loan-to-deposit ratio was 50.26 percent. This was the lowest of the four Northern Michigan banks and savings and loans of similar asset size (between \$60 million and \$275 million). The range for the three other institutions was from 61 percent to 99 percent. However, CNB is the only bank headquartered in Cheboygan County. Despite its lower loan-to-deposit ratio, CNB's performance is reasonable considering that the bank is an active residential mortgage lender that sells loans to the secondary market. CNB sold a total of \$26.8 million in loans during 2014 and 2015. Furthermore, the bank experienced \$40 million in deposit growth during 2015. The loan-to-deposit ratio has also been impacted by weak loan demand as a result of the seasonality of some of the area's workers, contractors leaving the Cheboygan area, weaker than normal tourism in recent years, and interest rate competition from the larger, non-local financial institutions.

### **Lending in Assessment Area**

CNB originates a substantial majority of its residential mortgage and business loans within its AA, exceeding the standard for satisfactory performance. Table 4 reflects that out of a sample of 98 residential mortgage loans and business loans originated during 2014, 2015, and 2016, 89 were within the bank's AA. The 89 loans represent 90.82 percent of the number of loans, and 80.68 percent of the dollar amount of loans, in the sample.

<b>Table 4 – Lending Inside vs. Outside CNB’s AA</b>										
Type of Loan	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgage Loans	44	88.00	6	12.00	50	6,797	88.65	870	11.35	7,667
Commercial/Business Loans	45	93.75	3	6.25	48	9,157	75.64	2,950	24.36	12,107
Total	89	90.82	9	9.18	98	15,954	80.68	3,820	19.32	19,774

Source: Sample of 50 residential real estate loans and 48 business loans.

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

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

*Residential Mortgage Loans*

Table 5 shows the distribution of a sample of 44 residential mortgage loans originated by CNB within the bank’s AA. The distribution reflects reasonable penetration to borrowers of different income levels, including low- and moderate-income borrowers. Based on the sample, CNB made 18.18 percent of its residential mortgage loans to moderate-income borrowers. This is comparable to the 18.94 percent of families in the AA that are moderate-income. CNB also made 13.64 percent of its residential mortgage loans to low-income borrowers. While this is less than the 17.35 percent of the families in the AA that are low-income, we considered that 12.1 percent of households in the AA are living below the poverty level. It is difficult for this segment of the population to afford to purchase or maintain a home, which affects opportunities to lend to low-income borrowers. CNB also made 26 USDA Rural Housing Development loans totaling \$2.4 million during 2014 and 2015. This further supports the bank’s efforts to assist borrowers that may not otherwise qualify for a mortgage loan.

<b>Table 5 – Borrower Distribution of CNB’s Residential Mortgage Loans</b>								
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
	17.35	13.64	18.94	18.18	21.20	18.18	42.52	50.0

Source: Sample of 44 residential mortgage loans; 2010 U.S. Census data; FFIEC Updated Median Family Income.

*Business Loans*

Table 6 shows the distribution of a sample of 45 business loans originated by CNB within the bank’s AA. The distribution reflects reasonable penetration to businesses of different sizes, including businesses with gross annual revenues of \$1 million or less. Based on the sample, CNB made 77.78 percent of its loans to business with gross annual revenues of \$1 million or less, which compares closely to the 81.22 percent of businesses in the AA that are in that revenue category. CNB also made 76.03 percent of its dollar volume of loans to businesses with gross annual revenues of \$1 million or less. Revenue information is unavailable or unknown for 14.36 percent of the businesses in the AA. Furthermore, the bank made one SBA loan for \$321,000.

<b>Table 6 – Borrower Distribution of CNB’s Business Loans</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	81.22	4.42	14.36	100.00
% of Bank Loans in AA by #	77.78	22.22	0.00	100.00
% of Bank Loans in AA by \$	76.03	23.97	0.00	100.00

Source: Sample of 45 business loans; 2015 Business Geodemographic Data.

**Geographic Distribution of Loans**

Based upon our sample of loans, CNB’s geographic distribution of loans reflects excellent dispersion throughout its AA for both residential mortgage and business loans and exceeds the standard for satisfactory performance. However, we only tested a sample of loans originated during the review period which can impact the percentages in each category. As there are no low-income census tracts in the AA, conclusions are primarily based on lending in moderate-income tracts.

*Residential Mortgage Loans*

Table 7 reflects the geographic distribution of a sample of 44 residential mortgage loans originated by CNB within the bank’s AA. The distribution reflects an excellent dispersion throughout the AA, given existing lending opportunities and the bank’s performance context. Based on the sample, CNB made 15.91 percent (7 loans) of its residential mortgage loans in the three moderate-income census tracts within its AA. This figure significantly exceeds the 9.96 percent of the AA’s owner-occupied housing units located in those census tracts.

Table 7 – Geographic Distribution of CNB’s Residential Mortgage Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
	0.00	0.00	9.96	15.91	64.20	75.0	25.84	9.09

Source: Sample of 44 residential real estate loans; 2010 U.S. Census data.

**Business Loans**

Table 8 shows the geographic distribution of a sample of 45 business loans originated by CNB within the bank’s AA. The distribution reflects an excellent dispersion throughout the AA, given existing lending opportunities and the bank’s performance context. Based on the sample, CNB made 13.33 percent of its business loans in the three moderate-income census tracts within its AA. This compares favorably to the 9.07 percent of the businesses in the bank’s AA that are located in those census tracts.

Table 8 – Geographic Distribution of CNB’s Business Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0.00	0.00	9.07	13.33	63.86	77.78	27.07	8.89

Source: Sample of 45 business loans; 2015 Business Geodemographic Data.

**Responses to Complaints**

CNB did not receive any complaints during the evaluation period that would affect its CRA rating.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s or federal savings association’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or the federal savings association, or in any AA by an affiliate whose loans have been considered as part of the bank’s or federal savings association’s lending performance.

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