



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

October 09, 2007

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

Citizens National Bank of Cheboygan  
Charter Number: 13522

303 North Main Street  
Cheboygan, Michigan 49721

Office of the Comptroller of the Currency

Northern Ohio  
Summit Office Park, Suite 530, 3 Summit Park Drive  
Independence, Ohio 44131

**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 Outstanding.**

- Citizens National Bank of Cheboygan (CNB) exceeds standards for originating loans inside its assessment area (AA).
- CNB's distribution of residential real estate loans among different income levels and its distribution of commercial real estate loans is very good, especially considering CNB's economically-challenged, and competitively-active AA.
- CNB's geographic distribution of residential and commercial real estate loans reflects an excellent dispersion throughout the AA.
- The bank's loan-to-deposit ratio is reasonable given its size, financial condition, and credit needs of the community.
- In addition to the bank's lending activities, CNB has an excellent record for providing, participating in, and donating services and investments to the communities it is located in and serves.

**SCOPE OF EXAMINATION**

Our evaluation of CNB's performance within its AA covered the period April 1, 2002 through October 9, 2007. During our review, we used small bank assessment procedures. We also gave consideration to the bank's qualified investments and services completed during the assessment period. Since CNB is located in a non-MSA area, we randomly sampled 30 loans each from the bank's two largest lending portfolios, which included residential and commercial real estate loans. In addition, we used 2000 U.S. Census Data, bank compiled data, OCC CRA data and other information from governmental websites for our assessment. We also contacted two community members and interviewed bank management. The previous CRA evaluation dated May 13, 2002, resulted in a Satisfactory rating.

**DESCRIPTION OF INSTITUTION**

CNB does not have any financial, legal, or other impediments restricting its capacity to serve the community. It is a wholly owned subsidiary of CNB Corporation, a one-bank holding company, and is a full-service community bank headquartered in Cheboygan, Michigan. It also has one Michigan subsidiary, CNB Mortgage Corporation, which was incorporated in September 2001. CNB is a seven-branch intrastate bank with two offices in Cheboygan, one each in Indian River, Onaway, Pellston, Mackinaw City, and, the newest branch opened in Alanson in February 2007. One Cheboygan branch and the Indian River, Onaway, Alanson, and Mackinaw City offices operate drive-through service windows. All of the bank's branches include ATMs. CNB also operates two stand-alone drive-through facilities in Cheboygan and two off-premise non-deposit ATMs. The Pellston and Indian River branches each operate one off-premise non-deposit ATM within their respective cities. During the evaluation period, CNB replaced one drive-through

facility in Cheboygan with a full service branch, creating new jobs within the designated under-served and distressed area.

As of June 30, 2007, CNB reported total assets of \$261 million and its loan portfolio represented 67 percent of those total assets. As demonstrated in Table 1, the bank is primarily a residential and commercial real estate lender. However, the bank does offer many other traditional bank loan products, which include products that benefit low- and moderate-income borrowers, and small businesses. For example, loans guaranteed through the USDA Rural Housing Development program, the Michigan State Housing Development Authority (MSHDA), and Small Business Administration are available to qualified borrowers. Additionally, CNB continues to offer a low interest rate loan product for storefront improvement to businesses located in the Cities of Cheboygan, Onaway, Indian River, and Pellston.

Loan Category	Amount	Percentage
Residential Mortgage Loans (First Liens)	\$70,120	40.24%
Commercial Real Estate Loans	\$58,634	33.65%
Construction and Development Loans	\$11,863	6.81%
Commercial and Industrial Loans	\$11,358	6.52%
Consumer Loans	\$7,471	4.29%
Home Equity Loans (Junior Lien)	\$7,251	4.16%
Home Equity Credit Lines	\$5,476	3.14%
Other	\$1,969	1.13%
Agricultural Loans	\$108	.06%
<b>Total Loans Outstanding</b>	<b>\$174,250</b>	<b>100.00%</b>

*Data Source: Citizens National Bank Call Report June 30, 2007.*

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

CNB’s AA consists of the northern section of Michigan’s Lower Peninsula and includes all of Cheboygan County and portions of Emmet and Presque Isle Counties. The AA is bound to the north by Lake Huron and Lake Michigan and contains over 90 square miles of inland lakes and rivers. Tourism and related industries represent a major business influence in the AA, which makes it a desirable retirement and vacation destination. Second home properties represent a large percentage of total housing within the AA.

The AA meets regulatory requirements and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of 16 of the 22 census tracts (CT) within the three counties that CNB serves. Fourteen of the CT’s are designated as middle-income tracts, and only one CT is designated as a moderate-income tract. There are no low-income CT’s within the three counties of CNB’s AA. Additionally, all of the middle-income CT’s within CNB’s AA are designated distressed or under-served.

The economy is characterized as unstable and unemployment is high. According to the Bureau of Labor Statistics, from 2002 through July 2007 the aggregated unemployment rate for the AA averaged 9.13 percent. The state’s unemployment rate for the same period averaged 6.85 percent. Unemployment levels within the AA are seasonal, with higher unemployment during the fall and winter seasons and lower unemployment during the spring and summer tourist

season. Major employers within the AA include regional hospitals and affiliated medical services, school systems, two small manufacturing firms, and a seasonal ferry service. However, the Michigan Economic Development Commission reported the largest employer within the AA as having less than 500 employees.

Several financial institutions and non-financial institution lenders provide competition in the AA. There are three large commercial banks, seven small to large community banks, and two credit unions located within the AA. Other lenders, such as mortgage brokers and insurance agents, also provide home lending services. However, using FDIC Deposit Market Share Data as of June 30, 2006, CNB, with a deposit market share of 18.98 percent, ranks first out of all FDIC-insured institutions with at least one branch located in the bank's AA.

Notwithstanding the economic challenges and competitive pressures present in the AA, CNB's performance of lending to low- and moderate-income borrowers is very good. The AA's population, weighted average median family income and weighted average median family household income are low. Based on 2000 census data, the AA contains less than one percent of the state's population with 52,219 residents, comprised of 14,902 families and 21,174 households. Its weighted average median family and median household incomes total \$41,470 and \$35,466, respectively. The number and percentage of families in each income level within the AA are as follows: 2,773 or 18.61 percent low-income, 3,329 or 22.34 percent moderate-income, 3,811 or 25.57 percent middle-income, and 4,989 or 33.48 upper-income. However, in aggregate, low and moderate families by income within the AA make up 6,102, or 40.95 percent, of the families. Additionally, 1,107, or 7.43 percent, of the families by income are below the poverty level. The breakdown of households by income within the AA total: 4,590 or 21.68 percent low-income, 3,968 or 18.82 percent moderate-income, 4,776 or 22.56 percent middle-income and 7,822 or 36.94 percent upper-income. In aggregate, there are 8,576, or 40.50 percent, low- and moderate-income households, of which 2,241 or 10.58 percent are below the poverty level. The median housing value within the AA is \$104,743, with 63.36 percent of the total housing units being owner-occupied.

During our evaluation, we made two community contacts, which included a county and a city official. They identified the primary need for the area to be new, or expanded, non-seasonal business growth, which would improve job growth and reduce unemployment. Each stated manufacturing jobs are leaving the area due to logistics and an inadequate communication infrastructure.

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

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

The bank's loan-to-deposit ratio is reasonable given its size, financial condition, and credit needs of the community. CNB average quarterly loan-to-deposit ratio from April 1, 2002 through June 30, 2007 totaled 79.83 percent, which includes mortgages sold on the secondary market. Three similarly situated community banks with asset sizes ranging from \$48 million to \$265 million within the area had loan-to-deposit ratios totaling 82.54, 93.52 and 106.47 percent. Although CNB loan-to-deposit ratio is lower, its loan portfolio increased by \$31 million, or 21 percent, and ranked second among the four banks for loan growth during the assessment

period. CNB is also the deposit market leader within its tri-county AA. During the assessment period, the bank was successful in retaining and attracting deposits to maintain better pace with loan growth as compared to the other three banks. Additionally, CNB’s loan growth is limited due to competition, high unemployment and the lack of stable employers.

**Lending in Assessment Area**

CNB exceeds standards for originating loans inside its AA. Our conclusion is based on the results of our random sampling of 30 loans each from the bank’s residential real estate and commercial real estate portfolios, its two primary loan types. The loans were originated or refinanced from January 1, 2005 through June 30, 2007. As indicated in Table 2 below, CNB originated or refinanced 95 percent of the number and 96.33 percent of the dollar of loans within the AA during the defined assessment period.

Type of Loan	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgage Loans	28	93.33	2	6.67	30	2,634	96.27	103	3.76	2,737
Commercial Real Estate Loans	29	96.67	1	3.33	30	13,427	96.35	509	3.65	13,936
<b>Total</b>	<b>57</b>	<b>95.00</b>	<b>3</b>	<b>5.00</b>	<b>60</b>	<b>16,061</b>	<b>96.33</b>	<b>612</b>	<b>3.67</b>	<b>16,673</b>

*Data Source: Sample of 30 residential real estate loans and 30 commercial real estate loans.*

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

CNB’s distribution of residential real estate loans among borrowers of different income levels is good. Table 3 compares the actual percentage of families based on income level located within the assessment area to 28 randomly selected residential loans within the AA originated by the bank from January 1, 2005 through June 30, 2007. The sample indicates that 25 percent of the residential loans were made to moderate-income families. This compares favorably to the 22.34 percent of moderate-income families within the AA. The sample also indicates that 7.14 percent of loans were made to low-income families, which is less than the 18.61 percent of low-income families located in the AA. While this is less than the 18.61 percent of low-income families in the assessment, we still consider this favorable considering that 7.43 percent of the families in the assessment area are below poverty level. In addition, the median income for low-income families at \$20,743 or less as compared to the median purchase price of a home in the AA at \$104,743 makes it difficult for low-income families to qualify for home loans under standard underwriting criteria.

Borrower Income Level	Low < \$20,735		Moderate \$20,735 - \$33,135		Middle \$33,135 - \$49,764		Upper > \$49,764	
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
Residential Real Estate Loans	18.61	7.14	22.34	25.00	25.57	32.14	33.48	35.71

*Source: Loan sample of 28 residential real estate loans; 2000 U.S. Census data.*

The distribution of business loans is good. As demonstrated in Table 4, the percentage of business loans and dollars originated by CNB to businesses with revenues less than \$1 million mirrors the business demographics of the AA. Factors affecting CNB's lending to businesses are competition and the unstable economy.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.43	3.01	25.56	100%
% of Bank Loans in AA by #	79.31	20.69	0.00	100%
% of Bank Loans in AA by \$	74.35	25.65	0.00	100%

*Source: Loan sample of 29 commercial real estate loans; 2000 U.S. Census data.*

### Geographic Distribution of Loans

Although there is a limited number of opportunities for the bank to make residential and commercial real estate loans within the one moderate-income tract of the AA, CNB's geographic distribution of residential and commercial real estate loans reflects an excellent dispersion throughout the AA. As demonstrated in Tables 5 and 6, CNB originated more residential and commercial real estate loans than the percentages of owner-occupied houses and businesses located in the moderate-income tract. To determine our results, we used our random sample of residential and commercial real estate loans and utilized the Federal Financial Institution Examination Council's (FFIEC) geocoding system to determine each borrower's location and appropriate CT. If not found on the FFIEC's geocoding system, we used the internet's MapQuest to determine the exact location of the borrower's address in the AA and compared those findings with maps from the FFIEC's website which identifies each CT.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Residential Real Estate 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	% of AA Owner Occupied Housing	% of Number of Loans
% of Total	0.00	0.00	4.91	17.86	87.43	78.57	7.66	3.57

*Source: Loan sample of 28 residential real estate loans; 2000 Census Data.*

Census Tract Income Level	Low		Moderate		Middle		Upper	
Commercial Real Estate Loans	% 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
% of Total	0.00	0.00	4.75	6.90	86.42	93.10	8.83	0.00

*Source: Loan sample of 29 commercial real estate loans; 2000 Census data.*

### **Qualified Investments and CD Services**

CNB has an excellent record for providing, participating, and donating services and investments to the communities it is located in and serves. For example, in 2006, CNB and its employees contributed \$105,323 to various organizations throughout its AA. The following represents a list of qualified investments and services the bank has provided, participated in, or donated during the assessment period.

#### *Qualified Investments*

- CNB’s qualified investments include bank donations to three organizations totaling \$33,700. All funds are targeted to organizations that support low- to moderate-income families, or individuals, and whose purpose is revitalizing low- and moderate-income census tracts within the AA.

#### *Qualified Services*

- CNB is involved with Northeast Michigan Affordable Housing, who administers a program for housing and home improvement. The housing and home improvement program specifically benefits low- to moderate-income families, or individuals, and facilitates the revitalization of the low- and moderate-income CT’s and Distressed or Under-Served areas. According to newspaper articles published on March 31, 2006 and in 2007, since 2004 through 2007, CNB was integral in procuring roughly \$235,000 in grant money from the Federal Home Loan Bank for the program. In 2004 and 2005, \$185,000 of the grant money was used to rehabilitate 14 homes within the AA.
- Other than one credit union office, CNB’s Onaway branch is the only bank office in the one moderate-income tract within the three counties that the bank serves. CNB’s six other full-service branches, stand-alone drive through facilities, and ATM’s are located in middle-income CT’s that have been designated as Distressed or Under Served from 2005 through 2007.
- CNB offers products through the USDA Rural Housing Development program, the Michigan State Housing Development Authority (MSHDA), and Small Business Administration. For example, from April 2002 through October 2007, CNB originated 19 home improvement loans for \$200,456 through the MSHDA. Additionally, CNB continues to offer a low interest rate loan product for storefront improvement to businesses located in the Cities of Cheboygan, Onaway, Indian River, and Pellston.

- CNB services loans for the Cheboygan County Habitat for Humanity and homeowners at no cost.
- Through its employees, CNB is also involved in a variety of community development services. Some examples are listed here:
  - A Senior Vice President serves as a board member for the Cheboygan County Habitat for Humanity.
  - The Internal Auditor offers tax preparation assistance to low-income individuals and families.
  - An Assistant Vice President is a member of the Cheboygan County United Way Board of Directors.
  - A branch manager is on the board of the Senior Citizen Housing of Onaway, which manages low- to moderate-income senior housing.
  - An Assistant Vice President is with the Cheboygan County Housing Commission, which administers a grant program specific to providing low cost funding to rehabilitate or make emergency repairs to homes of low- and moderate-income families or individuals.
  - The bank's President/CEO is a board member of Cheboygan County's Economic Development Commission and North Lake Economic Alliance. The purpose of both organizations is to foster business and job growth within the AA.
- CNB provides office space to Alpena Community College for its Small Business Training Development Center.

### **Responses to Complaints**

CNB received no complaints during the assessment period that would affect its CRA rating.

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

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