



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**April 19, 2010**

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

The First National Bank of St. Ignace  
Charter Number: 3886  
132 N. State Street  
St. Ignace, MI 49781

Office of the Comptroller of the Currency  
Iron Mountain Field Office  
1302 1/2 South Carpenter Ave.  
P.O. Box 666  
Iron Mountain, MI. 49801

**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 bank originates a substantial majority of its loans inside the assessment area.
- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the community.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

**SCOPE OF EXAMINATION**

We evaluated the Community Reinvestment Act (CRA) performance of The First National Bank of St. Ignace (FNB St. Ignace) under the Small Bank Lending Test. Data from the bank's primary loan products, commercial loans and residential real estate loans, was used to evaluate the bank's lending performance.

The evaluation covered the period since the previous CRA examination, September 15, 2003, through March 31, 2010. The Lending Test evaluated commercial loans and home mortgage loans originated between January 1, 2008 and April 6, 2010. 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 St. Ignace is a \$199 million bank with its main office located in St. Ignace, MI, which is in a middle-income census tract (CT). The bank operates six full-service branches, two located in St. Ignace, MI, one in Cedarville, MI (middle-income CT), one on Mackinac Island, MI (middle-income CT), one in Naubinway, MI (moderate-income CT), and one in Newberry, MI (middle-income CT). A 24-hour ATM is located at all the branches. ATM's are also located at the following locations: Grand Hotel and Main Street Taxi Stand on Mackinac Island, Glen's Supermarket and West US-2 Shell Mini-Mart in St. Ignace, and Cedarville Foods in Cedarville. All of these ATM's are located in middle-income CTs and are available during normal business hours.

The bank offers traditional community bank products and services and is primarily a commercial and residential real estate lender. By dollar volume, the loan portfolio consists of commercial loans (57%), residential real estate loans (35%), consumer loans (6%), and other loans (2%).

There are no legal or financial impediments limiting the bank's ability to meet the credit needs of its AA. FNB St. Ignace's previous CRA evaluation dated September 15, 2003 resulted in a Satisfactory rating.

## DESCRIPTION OF ASSESSMENT AREA

FNB St. Ignace has one AA. The bank's AA includes 14 census tracts located in the Upper and Lower Peninsulas of Michigan. This area includes all of Mackinac and Luce Counties, the southeastern portion of Chippewa County in the Upper Peninsula, the north and northeastern portion of Emmet County and the northwestern portion of Cheboygan County in the Lower Peninsula. The AA is comprised of two moderate- and twelve middle-income CTs. Additionally, all of the middle-income CTs within FNB St. Ignace's AA are designated as distressed or underserved. The AA complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

According to 2000 census data, the total population of the bank's AA is 39,238. This includes 10,331 families. Income levels for these families are as follows: 2,098 low-income families (20%), 2,334 moderate-income families (23%), 2,679 middle-income families (26%) and 3,220 upper-income families (31%). 11% of households in the AA are below the poverty level. The 2000 U.S. Census estimated median family income (MFI) is \$39,691 for Michigan. The 2009 Department of Housing and Urban Development (HUD) estimated MFI is \$52,700 for Michigan.

The local economy is characterized as stressed and unemployment is high. Tourism continues to be the primary economic activity in the area. The new hospital built in St. Ignace (Mackinac Straits Health Systems) helped sustained employment and created positions for new doctors and medical staff to come to the area. Major employers in the area include: Mackinac Straits Health Systems, Kewadin Casino, and seasonal tourism. According to the Bureau of Labor Statistics, from 2003 through 2009 the aggregated unemployment rate for the AA averaged 9.7%. The state's unemployment rate for the same period averaged 8.1%. Unemployment rates within the AA are seasonal, with higher unemployment during the fall and winter seasons and lower unemployment during the spring and summer tourist season. For example, unemployment rates in winter months often exceed 20%.

Competition from other financial institutions is strong in the local market. The bank's competitors include large multi-state banks, branches of state banks, community banks, and several credit unions. Based on June 30, 2009 FDIC deposit market share data, FNB St. Ignace's 10% market share ranks fourth out of all FDIC-insured institutions with at least one branch located in the AA. The balance of the market share is divided among nine institutions with market shares ranging from 1% to 12%.

In assessing the bank's CRA performance, we contacted a local organization to determine the community's profile and the 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

The loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and credit needs of the community. The average quarterly loan-to-deposit ratio for the bank since the last examination is 55%, which ranks fourth in a peer group of four similarly situated banks. The peer group consists of banks with assets less than \$250 million that have a branch within 50 miles of FNB St. Ignace. FNB St. Ignace has the third largest level of average assets of these banks at \$199 million. The other banks' average assets ranged from \$96 million to \$250 million. The average loan-to-deposit ratios for the similarly situated banks ranged from 69% to 79% over the same time period.

Although FNB St. Ignace’s loan-to-deposit ratio is lower than the comparison group, the bank originates a significant number of residential real estate loans that are immediately sold on the secondary market. In 2008 and 2009, the bank originated and sold \$3 million and \$14 million, respectively. These loans are not used in the loan-to-deposit calculation.

### Lending in Assessment Area

The bank originates a substantial majority of its loans to borrowers within its AA. A random sample of the bank’s primary loan products shows 94% of loans by number and 89% of loans by dollar were originated within the AA.

| <b>Lending in the Assessment Area</b> |                 |            |          |           |           |                          |            |                |            |                 |
|---------------------------------------|-----------------|------------|----------|-----------|-----------|--------------------------|------------|----------------|------------|-----------------|
| Type of Loan                          | Number of Loans |            |          |           |           | Dollars of Loans (000's) |            |                |            |                 |
|                                       | Inside          |            | Outside  |           | Total     | Inside                   |            | Outside        |            | Total           |
|                                       | #               | %          | #        | %         |           | \$                       | %          | \$             | %          |                 |
| Real Estate Mortgages                 | 35              | 97%        | 1        | 3%        | 36        | \$3,104                  | 94%        | \$200          | 6%         | \$3,304         |
| Commercial                            | 27              | 90%        | 3        | 10%       | 30        | \$7,556                  | 87%        | \$1,083        | 13%        | \$8,639         |
| <b>Totals</b>                         | <b>62</b>       | <b>94%</b> | <b>4</b> | <b>6%</b> | <b>66</b> | <b>\$10,659</b>          | <b>89%</b> | <b>\$1,283</b> | <b>11%</b> | <b>\$11,942</b> |

Source: Bank records (verified by examiners)

### Lending to Borrowers of Different Incomes

As shown in the following table, the distribution of loans to businesses of various revenue sizes is reasonable. The number of loans to businesses with revenues under \$1 million is consistent with area demographics.

| <b>Borrower Distribution of Businesses</b> |                |               |             |       |
|--|----------------|---------------|-------------|-------|
| Business Revenues (or Sales)               | <= \$1,000,000 | > \$1,000,000 | Unavailable | Total |
| % of AA Businesses                         | 76%            | 3%            | 21%         | 100%  |
| % of Bank Loans in AA by #                 | 74%            | 19%           | 7%          | 100%  |
| % of Bank Loans in AA by \$                | 56%            | 41%           | 3%          | 100%  |

Source: Sample of 27 bank records (verified by examiners) and U.S Census Demographic Data

Similarly, the distribution of residential real estate loans among borrowers of different income levels is reasonable. This is illustrated in the table below.

| <b>Borrower Distribution of Residential Real Estate 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 |
| % of Total   | 20%              | 11%                  | 23%              | 29%                  | 26%              | 23%                  | 31%              | 37%                  |

Source: Sample of 35 bank records (verified by examiners) and U.S Census Demographic Data.

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the AA.

As shown in the following table, 22% of business loans were originated in the AA’s moderate-income CTs. This compares favorably to demographic data which indicates that 10% of AA businesses are located in moderate-income CTs.

| <b>Geographic Distribution of Business Loans</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 |
| % of Total                                       | 0%                 | 0%                   | 10%                | 22%                  | 90%                | 78%                  | 0%                 | 0%                   |

Source: Sample of 27 bank records and U.S. Census Demographic Data

The bank also has a reasonable geographic distribution of residential real estate loans in the AA, as borrowers located in moderate-income CTs represented 11% of our loan sample. This is consistent with the percentage of owner-occupied housing in the moderate-income CTs.

| <b>Geographic Distribution of Residential Real Estate Loans</b> |                                       |                             |                                       |                             |                                       |                             |                                       |                             |
|---|---------------------------------------|-----------------------------|---------------------------------------|-----------------------------|---------------------------------------|-----------------------------|---------------------------------------|-----------------------------|
| <b>Census Tract Income Level</b>                                | <b>Low</b>                            |                             | <b>Moderate</b>                       |                             | <b>Middle</b>                         |                             | <b>Upper</b>                          |                             |
|   | <b>% of AA Owner Occupied Housing</b> | <b>% of Number of Loans</b> | <b>% of AA Owner Occupied Housing</b> | <b>% of Number of Loans</b> | <b>% of AA Owner Occupied Housing</b> | <b>% of Number of Loans</b> | <b>% of AA Owner Occupied Housing</b> | <b>% of Number of Loans</b> |
| <b>% of Total</b>   | <b>0%</b>                             | <b>0%</b>                   | <b>11%</b>                            | <b>11%</b>                  | <b>89%</b>                            | <b>89%</b>                  | <b>0%</b>                             | <b>0%</b>                   |

*Source: Sample of 35 bank records and U.S. Census Demographic Data*

### **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**

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