



PUBLIC DISCLOSURE

December 16, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Mackinac Savings Bank, FSB
Charter Number 712202

280 N. Congress Avenue
Boynton Beach, FL 33426

Office of the Comptroller of the Currency

Doral Costa Office Park
9800 NW 41st Street, Suite 120
Miami, FL 33178-2970

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

Our performance evaluation finds that Mackinac Savings Bank, FSB's performance is "Satisfactory". The primary reasons for this rating include:

- The Bank's loan-to-deposit ratio is reasonable in comparison to other similarly situated financial institutions.
- The majority of the Bank's lending activity was outside of the assessment area, but the out of area lending does not significantly affect the overall satisfactory performance given performance context associated with a weak economy.
- The geographic distribution of loans reflects reasonable distribution throughout the Bank's assessment area.
- The distribution of loans to borrowers of different incomes reflects reasonable distribution throughout the Bank's assessment area.

SCOPE OF EXAMINATION

DESCRIPTION OF INSTITUTION

Mackinac Savings Bank, FSB (Mackinac) operates from its main office in Boynton Beach, Florida, and two other full service branch offices located in West Palm Beach and Delray Beach, Florida. The Bank also has loan production offices in Auburn, Worcester County, Massachusetts, and Farmington Hills, Oakland County, Michigan. A loan production office that operated in Plantation, Broward County, Florida closed in August 2011. No depository branch offices were opened or closed during the evaluation period. No affiliate or subsidiary activity is relevant to this evaluation and such activity does not affect the Bank's ability to lend or invest in its community.

Within the assessment area, the institution has two branches in moderate-income geographies and one branch in a middle-income geography. The Massachusetts mortgage banking operation continues to be a major source of the Bank's loan production for loans outside of the Bank's assessment area.

The Bank offers a variety of deposit products and home mortgage lending products including government-insured mortgages, as described in its CRA Public File. Mackinac's primary business focus is one-to-four family lending and the institution is one of only a few lenders in the community to consistently offer financing for co-operative apartments. Home improvement loans are not a primary product for the Bank; therefore, we did not include home improvement loans in our analysis or in the tables below. During the evaluation period, Mackinac sold a significant volume of residential mortgage loans to the secondary market.

Mackinac had assets of \$113 million as of September 30, 2013. Total deposits were \$103 million and Tier 1 Capital totaled \$9 million. Total loans were \$42 million, representing 37

percent of assets. The Loan portfolio consisted of residential mortgage loans (90.51 percent), commercial real estate loans (9.44 percent) and commercial and industrial loans (0.05 percent).

There were no legal or regulatory impediments adversely affecting the Bank's ability to help meet community credit needs. However, the Bank did face significant challenges in its ability to help meet the credit needs of its assessment area when considering the negative effects of the nationwide recession with increased foreclosures in the assessment area, sharp declines in real estate values, the reduction of funding to subsidy programs, a highly competitive market, a conservative lending policy, and reduced lending staff. These challenges were considered when evaluating Mackinac's CRA performance.

DESCRIPTION OF ASSESSMENT AREA(S)

The Bank's assessment area consists of Palm Beach County also known as West Palm Beach-Boca Raton- Boynton Beach Metropolitan Division (MD) #48424 and Broward County also known as Fort Lauderdale- Pompano Beach- Deerfield Beach MD # 22744. The Bank excludes the following geographies from its assessment area, which are the western agricultural and conservation areas from Palm Beach County: census tracts 79.12, 80.01, 80.02, 81.01, 81.02, 82.01, 82.02, 82.03, 83.01 and 83.02. For agricultural purposes, census tract 703.17 was excluded in Broward County. These MDs are part of the larger Miami- Fort Lauderdale- Miami Beach Metropolitan Statistical Area #33100. From our analysis of the excluded geographies, we conclude that the assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- and moderate-income geographies. The geographies excluded from the assessment area are agricultural areas in the far west portions of the county that are not located near any of the Bank's branches and are somewhat separated by wildlife conservation areas.

The combined assessment area had a total of 544 census tracts (CTs) according to the 2000 Census, which includes 28 (5.15 percent) low-income CTs, 141 (25.92 percent) moderate-income CTs, 206 (37.87 percent) middle-income CTs, 167 (30.70 percent) upper-income CTs, and two (0.37 percent) CTs to which no income level has been assigned. According to the 2010 Census, the combined assessment area has a total of 698 census tracts. The breakdown is as follows: 40 (5.73 percent) low-income CTs, 183 (26.22 percent) moderate-income CTs, 239 (34.24 percent) middle-income, 227 (32.52 percent) upper-income CTs, and nine (1.29 percent) CTs to which no income level has been assigned.

Palm Beach County

Palm Beach County is located in southeast Florida bordered by Martin County to the north, the Atlantic Ocean to the east, Broward County to the south, and Hendry County to the west. Lake Okeechobee lies in the northwest corner of the county and the Loxahatchee National Wildlife Refuge is located in the south central portion. The eastern portion of the county is primarily urban while the western portion is mostly rural with an agriculture base rooted in sugarcane.

Clusters of low- and moderate-income geographies are located in cities such as West Palm Beach, Riviera Beach, Lake Worth, and Boynton Beach along the eastern boundaries of the

county as well as inland around Lake Okeechobee and in western cities such as Belle Glade and Pahokee.

The county has experienced some growth in recent years, attributed to a recovering economy. Major employers include Publix Supermarkets Inc. and Tenet Healthcare Corporation. The largest employment sectors are professional and business services, education and health services, and leisure and hospitality services. As of the 2010 Census, the county had a population of approximately 1.3 million, an increase of about 16 percent over the population of approximately 1.1 million reported in the 2000 Census, making it the third largest in the state as of 2012, according to the Bureau of Economic Analysis. The increase in population resulted partially from the in-migration of retirees. According to Moody's Analytics, published in March 2013, 22 percent of the population in the county is age 65 or older.

The HUD adjusted median family income for Palm Beach County for 2008, 2009, 2010, 2011, and 2012 was \$66,600, \$67,600, \$67,600, \$63,300, and \$64,100, respectively. The cost of living in Palm Beach County remains high. Unemployment rates throughout the evaluation period ranged from a low of 5.0 percent in February 2008 to a high of 12 percent in July and August 2010. The most recent unemployment rate published by the Bureau of Labor Statistics is 7.1 percent as of September 2013. Annual unemployment rates throughout the evaluation period were 6.5 percent in 2008, 10.5 percent in 2009, 11.4 percent in 2010, 10.5 percent in 2011 and 8.8 percent in 2012.

Housing costs are high and have increased significantly over the past several years. Median home values increased from \$144,015 to \$315,131 and median gross rents increased from \$779 to \$1,161 based on information from the 2000 Census and 2010 Census. The high median cost makes it difficult for low- and moderate-income people to own a home in the assessment area without the help of loan subsidies, which were reduced during the evaluation period. High property tax and insurance premiums add significant costs to owning a home. Poverty levels in the county remain high at approximately nine percent according to the 2000 Census and 11 percent according to the 2010 Census. During the evaluation period, the level of homeowner occupancy declined from 63.62 percent, according to the 2000 Census, to 58.59 percent, according to the 2010 Census, as a result of the housing crisis. The percentage of vacant units increased from 14.78 percent to 20.39 percent. Palm Beach County has some of the highest foreclosure rates in the United States when adjusted for household size. According to Bankrate.com, Florida has consistently ranked in the top five states for the highest foreclosure rates. Rental unit occupancy also declined from 21.59 percent to 21.02 percent, respectively. In low- and moderate-income geographies, the level of renter occupancy is high (61.20 percent and 32.44 percent), based on 2010 Census data. The percentage of renters with rent costs more than 30 percent of their income grew from 41.96 percent based on the 2000 Census to 55.81 percent based on the 2010 Census. Low- and moderate-income geographies represent 12.23 percent and 38.96 percent of the total number of households below the poverty level, respectively, according to the 2010 Census. These factors all indicate a need for affordable housing and rental housing.

Competition is strong with numerous institutions competing in this market. Based on FDIC data as of June 30, 2013, there were 59 financial institutions operating 491 banking offices in Palm Beach County, including branches of the largest banks in the country as well as community and

midsize banks. Competition for loans is even more intense since numerous mortgage companies also operate in the assessment area and national credit card lenders compete for small business loans. Mackinac had a deposit market share of less than one percent and the market continues to be dominated by Wells Fargo and Bank of America.

Broward County

Broward County is also located in southeast Florida. The county is bordered to the north by Palm Beach County, to the east by the Atlantic Ocean, to the south by Miami-Dade County, and to the west by Collier County. Some of the largest cities in Broward County include Fort Lauderdale, Pompano Beach, Hollywood, Coconut Creek, and Coral Springs. The eastern portion of the county is urban, while the central portion is suburban, and the western portion is rural. The far western section of the county consists of the Big Cypress Seminole Indian Reservation and the Miccosukee Indian Reservation.

As with Palm Beach County, Broward has also experienced some growth within recent years. Major employers include Tenet Healthcare Corporation, HCA East Florida Division Office and Memorial Healthcare System. The largest employment sectors are Government, Education and Health Services, and Professional and Business Services. As of the 2010 Census, the county had a population of approximately 1.7 million, an increase of about eight percent over the population of approximately 1.6 million reported in the 2000 Census.

The HUD adjusted median family income for Broward County for 2008, 2009, 2010, 2011, and 2012 was \$64,000, \$65,400, \$66,200, \$61,800, and \$62,600, respectively. As of the 2010 Census, 12 percent of households live below the poverty level. Unemployment rates throughout the evaluation period ranged from a low of 4.1 percent in February 2008 to a high of 10 percent in January 2010. The most recent unemployment rate published by the Bureau of Labor Statistics is 5.6 percent as of September 2013. Annual unemployment rates throughout the evaluation period were 5.4 percent in 2008, 9.0 percent in 2009, 9.6 percent in 2010, 8.9 percent in 2011 and 7.4 percent in 2012.

Housing costs are high and have increased significantly over the past several years. Median home values increased from \$131,394 to \$306,927 and median gross rents increased from \$768 to \$1,153 based on information from the 2000 Census and 2010 Census. The high median cost in comparison to median family incomes makes it difficult for low- and moderate-income people to own a home in the assessment area without the help of loan subsidies, which have been reduced during the evaluation period. High property tax and insurance premiums add significant costs to owning a home. Poverty levels in the county remain high at approximately 11 percent according to the 2000 Census and 12 percent according to the 2010 Census. During the evaluation period, the level of homeowner occupancy declined from 61.35 percent, according to the 2000 Census, to 57.45 percent, according to the 2010 Census, because of the housing crisis. The percentage of vacant units increased from 11.69 percent to 17.10 percent. Broward County has the seventh largest foreclosure inventory in the United States when adjusted for household size. According to Bankrate.com, Florida has consistently ranked in the top five states for the highest foreclosure rates. Rental unit occupancy also declined from 26.96 percent to 25.46 percent, respectively. In low- and moderate-income geographies, the level of renter occupancy is

high (53.79 percent and 29.93 percent), based on 2010 Census data. The percentage of renters with rent costs more than 30 percent of their income grew from 13.28 percent based on the 2000 Census to 17.53 percent based on the 2010 Census. Low- and moderate-income geographies represent 10.60 percent and 42.66 percent of the total number of households below the poverty level, respectively, based on the 2010 Census. These factors all indicate a need for affordable housing and rental housing.

Competition is strong with numerous institutions competing in this market. Based on FDIC data as of June 30, 2013, there were 56 financial institutions operating 487 banking offices in Broward County, including branches of the largest banks in the country as well as community and midsize banks. Competition for loans is even more intense since numerous mortgage companies also operate in the assessment area and national credit card lenders compete for small business loans. Mackinac had no deposit market share and the market continues to be dominated by Bank of America and Wells Fargo.

Community credit needs in the combined assessment area were determined by reviewing recent housing and demographic information and community contacts conducted by the OCC in connection with other CRA evaluations of banks operating in the same assessment area. We conducted a community contact with an organization that focuses on community development. We determined the most pressing credit needs in the assessment area are affordable housing, small business lending, and financial literacy.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

- **Mackinac's loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance.**

The Bank's LTD ratio, in comparison to similarly situated institutions, is reasonable and meets the standards for satisfactory performance. The Bank's quarterly average LTD ratio since the last CRA evaluation is 54.33 percent. The Bank's LTD ratio ranged from a high of 62.32 percent in December 2008 to a low of 46.42 percent in March 2013. Twelve similarly situated banks had a quarterly average LTD ratio of 73.38 percent during the same period with individual quarterly average ratios ranging from 21.96 percent to 97.46 percent. While Mackinac's ratio is less than the average quarterly ratio for the other institutions, it did exceed two institutions' average quarterly ratios of 21.96 percent and 40.40 percent. Additionally, Mackinac is primarily a mortgage lender that makes very few small business loans. The majority of the other institutions in the area offer small business loans as a primary product or a mix of small business and residential mortgage loans. Economic factors, a conservative lending policy, and staff reductions had an impact on the ability to lend as well. There was limited inventory of available homes during the evaluation period that was further impacted by the significant investor demand in South Florida. While housing prices have started to rise, many borrowers still do not have sufficient equity in order to refinance their existing loans, which have affected the demand for 1-4 family lending.

Lending in Assessment Area

- **Lending activity reflects a majority outside the Bank’s assessment area, which does not meet the standards for satisfactory performance.**

Such performance does not significantly affect the Bank’s overall “Satisfactory” performance considering performance context associated with a weak economy.

A majority of the Bank’s lending activity is located outside the Bank’s assessment area, based on the analysis of HMDA data originated during our evaluation period. Overall, there were 425 home mortgage loans originated in the combined assessment area of Palm Beach and Broward Counties in the amount of \$96.6 million. These account for 16.91 percent of the number of loans and 17.88 percent of the dollar value of loans originated by the Bank during the evaluation period. Due to economic conditions including a rapid decline of home values and lower loan demand in Florida, as well as the Bank’s conservative lending practices, Mackinac closed the loan production office in Florida and curtailed lending in the assessment area to focus resources on the more stable real estate market in Massachusetts where one of its lending offices is located. As the real estate market in Florida began recovering in late 2012, Mackinac has worked to expand lending in the assessment area.

Table 1 - Lending in Miami- Fort Lauderdale- Miami Beach Partial MSA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase loans	259	22.39	898	77.61	1157	54,224	23.37	177,778	76.63	232,002
Home Refinance Loans	166	12.24	1190	87.76	1356	42,375	13.75	265,893	86.25	308,268
Totals	425	16.91	2088	83.09	2513	96,599	17.88	443,671	82.12	540,270

Source: HMDA data from January 1, 2008 to September 30, 2013

Lending to Borrowers of Different Incomes

- **The distribution of loans to borrowers of different incomes reflects reasonable distribution and meets the standard for satisfactory performance.**

Mackinac’s distribution of loans to borrowers of different incomes is adequate in light of assessment area demographics and peer comparisons. The tables below illustrate the distribution of mortgage loan originations and purchases in relation to the number of families in the assessment area by income level. Additionally, we compared the Bank’s performance to aggregate HMDA lending data, which received more weight, in our analysis.

In the Bank’s assessment area for the years 2008 through 2011, the distribution of home purchase loans to low-income borrowers was reasonable, based primarily on aggregate HMDA lending. The percentage of the Bank’s loans to low-income borrowers was lower than the percentage of low-income families and near the percentage of aggregate HMDA lending to low-income borrowers (7.05 percent). The distribution of home purchase loans to moderate-income borrowers was reasonable for 2008 through 2011. The percentage of the Bank’s loans to moderate-income borrowers was somewhat lower than the percentage of moderate-income families and the aggregate HMDA lending to moderate-income borrowers (21.06 percent). The distribution of home refinance loans to low-income borrowers was reasonable for 2008 through 2011. The percentage of the Bank’s loans to low-income borrowers was lower than the percentage of low-income families and near the percentage of aggregate HMDA lending to low-income borrowers (4.95 percent). The distribution of home refinance loans to moderate-income borrowers was reasonable for 2008 through 2011. The percentage of the Bank’s loans to moderate-income borrowers was lower than the percentage of moderate-income families and somewhat lower than the percentage of aggregate HMDA lending to moderate-income borrowers (11.15 percent). Aggregate HMDA lending was given more weight when determining the conclusion.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Miami- Fort Lauderdale- Miami Beach Partial MSA								
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	% of AA Families	% of Number of Loans
Home Purchase	20.43	3.08	18.34	12.31	20.53	19.49	40.71	65.13
Home Refinance	20.43	4.24	18.34	5.08	20.53	19.49	40.71	71.19

Source: HMDA data from January 1, 2008 to December 31, 2011

In the Bank’s assessment area for 2012 through September 30, 2013, the distribution of home purchase loans to low-income borrowers was reasonable based primarily on aggregate HMDA lending. The percentage of the Bank’s loans to low-income borrowers was lower than the percentage of low-income families and near the percentage of aggregate HMDA lending to low-income borrowers (7.30 percent). The distribution of home purchase loans to moderate-income borrowers was reasonable for 2012 through 2013. The percentage of the Bank’s loans to moderate-income borrowers was somewhat lower than the percentage of moderate-income families and the aggregate HMDA lending to moderate-income families (19.55 percent). The distribution of home refinance loans to low-income borrowers was reasonable for 2012 through 2013. The percentage of loans made to low-income borrowers was lower than the percentage of low-income families and somewhat lower than the percentage of aggregate HMDA lending to low-income borrowers (7.12 percent). The distribution of home refinance loans to moderate-income borrowers was reasonable for 2012 through 2013. The percentage of loans to moderate-income borrowers was lower than the percentage of moderate-income families and somewhat lower than the aggregate HMDA lending to moderate-income families (12.39 percent).

Table 2 - Borrower Distribution of Residential Real Estate Loans in Miami- Fort Lauderdale- Miami Beach Partial MSA								
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 Purchase	21.80	4.84	17.61	11.29	19.42	12.90	41.17	70.97
Home Refinance	21.80	2.13	17.61	6.38	19.42	12.77	41.17	78.72

Source: HMDA Data from January 1, 2012 to September 30, 2013

Geographic Distribution of Loans

- **The geographic distribution of the loans within the assessment area reflects reasonable distribution throughout the Bank’s assessment area and meets the standards for satisfactory performance.**

The overall geographic distribution of home mortgage loans in the combined assessment area is adequate. The tables below illustrate the distribution of mortgage loans in relation to the geographies. Additionally, we compared the Bank’s performance to aggregate HMDA lending data, which received more weight than demographic data for our analysis. As home purchase loans represented a majority of the lending by both number and dollar value, they received more weight in reaching our conclusion. There were no unexplained conspicuous gaps in lending. Geographies in the assessment area with no loan penetration are due to Mackinac’s limited number of branch offices that prevents the Bank from penetrating all areas in the assessment area.

As reflected in the following table for the years 2008 through 2011, the percentage of home purchase loans made in low-income geographies exceeds the percentage of owner-occupied housing units. The percentage of home purchase loans in low-income geographies also exceeds the percentage of aggregate HMDA lending in low-income geographies (1.23 percent). The percentage of home purchase loans in moderate-income geographies was lower than the percentage of owner-occupied housing units and the aggregate HMDA lending in moderate-income geographies (14.76). The Bank had no home refinance loans in low-income geographies. Aggregate HMDA lending in low-income geographies was less than 1 percent. The percentage of home refinance loans in moderate-income geographies was lower than the percentage of owner-occupied units and near the percentage of aggregate HMDA lending in moderate-income geographies (7.88 percent). According to the 2000 Census, the number of owner-occupied housing units in low-income geographies in the combined assessment area of Palm Beach and Broward Counties is 10,696, or 1.32 percent of the total number of owner-occupied housing units in the assessment area, which indicates a limited opportunity for home purchase and refinance loans in low-income geographies. Furthermore, during a portion of the evaluation period, Mackinac chose to sell some of its originated loans in the secondary market. As a result, when the Home Affordable Refinance Program came about, Mackinac no longer had established relationships with the borrowers. Considering the high level of competition in the area, the Bank

was not able to capitalize on the opportunities. These factors contributed to the lower volume of originations or purchases of home refinance loans.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Miami- Fort Lauderdale- Miami Beach Partial MSA								
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 Purchase	1.32	1.52	24.09	4.57	41.73	28.93	32.85	64.97
Home Refinance	1.32	0.00	24.09	5.08	41.73	16.95	32.85	77.97

Source: HMDA data from January 1, 2008 to December 31, 2011

As depicted in the following table for 2012 through September 30, 2013, Mackinac’s percentage of home purchase loans in low-income geographies was near the percentage of owner-occupied units. The percentage of the Bank’s loans exceeds the percentage of aggregate HMDA lending in low-income geographies (0.93 percent). The percentage of home purchase loans in moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units in moderate-income geographies and near the percentage of aggregate HMDA lending (16.17 percent). The Bank had no refinance loans in low-income geographies during this portion of the evaluation period and aggregate HMDA lending showed 0.69 percent of loans were made in low-income areas. The percentage of loans in moderate-income geographies was lower than the percentage of owner-occupied units and somewhat lower than the percentage of aggregate HMDA lending in moderate-income geographies (12.58 percent). According to the 2010 Census, the percentage of owner-occupied housing units in low-income geographies remained low at 2.29 percent, which contributed to the low number of loans available to be made in those areas.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Miami- Fort Lauderdale- Miami Beach Partial MSA								
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 Purchase	2.29	1.61	24.94	14.52	36.66	16.13	36.11	67.74
Home Refinance	2.29	0.00	24.94	6.38	36.66	17.02	36.11	76.60

Source: HMDA data from January 1, 2012 to September 30, 2013

Responses to Complaints

The Bank received no CRA performance related complaints since the last evaluation.

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 (bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

The OCC did not identify any evidence of discriminatory or other illegal credit practices with respect to this institution.