



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**January 05, 2004**

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

**Thumb National Bank and Trust Company  
Charter Number 15817**

**7254 Michigan Avenue  
Pigeon, Michigan 48755**

**Comptroller of the Currency  
Detroit Field Office  
Omni Officentre, Suite 411, 26877 Northwestern Highway  
Southfield, Michigan 48034**

**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 that support this rating are:

- Thumb National Bank & Trust Company (Thumb NB&T) has demonstrated a good record of lending to borrowers of all income levels, and to businesses of different sizes. The bank was found to have a reasonable record of lending to small businesses and small farmers. Thumb NB&T is active in meeting the credit needs of the agriculture community. The loan sample also disclosed a strong record of lending to low- and moderate-income borrowers.
- The bank's loan-to-deposit ratio is more than reasonable and represents a strong level of loan activity. Thumb NB&T's loan-to-deposit ratio over the evaluation period was 96.8 percent. In addition, the bank has been active in selling loans in the secondary market over the past couple of years, which has enabled the bank to meet more of the community needs.
- A substantial majority of loans were made within the bank's assessment area (AA) based on a loan sample and an internal bank report. This reflects a good performance of lending in the AA.
- Thumb NB&T's geographic distribution of loans reflects a reasonable dispersion throughout the AA.

## **DESCRIPTION OF INSTITUTION**

Thumb NB&T, a \$166.2 million intrastate financial institution, is a subsidiary of Thumb Bancorp Inc., a one-bank holding company. Both the bank and the holding company are headquartered in Pigeon, Michigan in the western portion of Huron County. Pigeon is approximately 50 miles northeast of Bay City and 100 miles north of Detroit. Thumb NB&T has four offices including the main office in Pigeon. The branch office locations include: Caseville, Cass City, and Bay City. The Bay City office was opened in June 2003. There has been no branch closing over the evaluation period. The bank also has six ATM locations to better serve the community, including two in Pigeon, two in Cass City, one in Caseville, and one in Bay City.

Thumb NB&T is a full service financial institution, offering a wide range of products. Loan products include commercial/business loans, agricultural loans, residential loans, and consumer loans. Thumb NB&T is active in trying to meet the credit needs of the farming community. Farming is a major economic base and employer in the AA. The bank offers a broad range of deposit products that include checking accounts, savings accounts, money market accounts, certificates of deposit, telebanking, and Internet banking. The bank offers Economy-checking, a product that requires no minimum balance, no monthly service charge, and no limit on the number of checks written. This product meets the needs of low- and moderate-income people. The bank also offers various trust services. As of December 31, 2003, the bank reported approximately \$136 million in outstanding loans. Net loans and leases to average asset ratio was

87.4 percent, and tier one leverage capital was \$11.5 million or 7.4 percent of adjusted average assets. The loan portfolio at December 31, 2003 was comprised of the loan categories shown in Table 1 below.

<b>Table 1 Loan Portfolio Breakdown December 31, 2003</b>		
<b>Loan Category</b>	<b>Dollar Amount (000)</b>	<b>Percentage</b>
Commercial Loans	\$46,655	34.3%
1-4 Family Residential Mortgage Loans	\$41,973	30.8%
Agricultural/Farm Loans	\$38,367	28.2%
Consumer Loans (including home equity loans)	\$ 9,119	6.7%
<b>Total</b>	<b>\$136,114</b>	<b>100.0%</b>

There are no legal impediments that would adversely affect the bank’s ability to serve the community. The previous CRA evaluation was performed in the third quarter of 1998 and resulted in a CRA rating of “satisfactory.”

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

Thumb NB&T has two AAs. One AA has 11 tracts that include portions of Huron, Sanilac, and Tuscola Counties. All tracts in this AA are either middle- or upper-income (see Table 2 for demographic information). The bank established a second AA with the opening of a branch office in Bay City. This AA includes all the (13) Bay City tracts and an additional 11 tracts in Bay County. This AA is comprised of moderate-, middle-, and upper-income tracts. This evaluation excluded assessment of the bank’s performance in meeting the Bay City/Bay County AA needs since the office has been open for less than a year. Given the short time this office has been open no meaningful conclusions could be derived.

The Counties of Huron, Sanilac, and Tuscola are primarily rural/agriculture in nature. Farming provides a significant economic base for this three county area. The majority of the land is used for farming. This area is a major supplier of beans and sugar beets to the farm industry. Other farm products include cattle, poultry, hogs, wheat, potatoes, dairy products, and corn. This three county area also offers manufacturing and service related jobs. Some of the major employers in Huron, Sanilac and Tuscola Counties are illustrated below:

<b>COUNTY</b>	<b>MAJOR EMPLOYERS</b>
Huron	Tower Automotive-Elkton, Huron Casting Inc., Gemini Plastics, Thumb Tool & Engineering, Scheurer Hospital, and Huron Medical Center

Sanilac	Trelleborg Automotive, Huron Inc., Midwest Rubber Company, and the Marlette Community Hospital
Tuscola	Walbro, Grade-Vassar Foundry Inc., Caro Regional Center, and the Michigan Sugar Company

<b>Table 2 Demographic Information for Thumb NB&amp;T's Assessment Area Portions of Huron, Sanilac, and Tuscola Counties Non-Metropolitan Statistical Area (MSA)</b>						
Demographic Characteristics	#	Low (% Of #)	Moderate (% Of #)	Middle (% Of #)	Upper (% Of #)	NA* (% Of #)
Geographies (Census Tracts)	11	0.0	0.0	100.0%	0.0	0.0
Population by Income Level of Geography	38,476	0.0	0.0	100.0%	0.0	0.0
Family Distribution by Income Level of Geography	10,811	0.0	0.0	100.0%	0.0	0.0
Owner-Occupied Housing Units by Income Level of Geography	12,598	0.0	0.0	100.0%	0.0	0.0
Businesses by Income Level of Geography	1,893	0.0	0.0	100.0%	0.0	0.0
Distribution of Families by Income Level Throughout AA	10,811	16.0%	20.9%	25.1%	38.0%	0.0
Businesses by Revenue Level	Revenues <= 1 Million	Revenues > 1 Million		Revenues not Reported		
Farm	98.8%	1.0%		0.2%		
Non-Farm	90.1%	5.6%		4.3%		
HUD Adjusted Median (ADM) Family Income 2002 Non-MSA				Unemployment Rate: Nov. 2003		
• Low Income (below 50% of ADM)	= \$48,300			United States	= 5.9%	
• Moderate Income (50 to 79.99% of ADM)	= \$0 - \$24,149			Michigan	= 7.1%	
• Middle Income (80% to 119.99% of ADM)	= \$24,150 - \$38,639			Huron County	= 8.4%	
• Upper Income (120% and above ADM)	= \$38,640 - \$57,959			Sanilac County	= 9.6%	
Households Below the Poverty Level	= \$57,960 - Above			Tuscola County	= 8.2%	
	= 4,897					

(\*) The NA category consists of geographies that have not been assigned an income classification.

**Data Sources:** 2000 U.S. Census; US Department of Labor. Dun and Bradstreet 2003.

There are 19 financial institutions serving the Counties of Huron, Sanilac, and Tuscola based on a June 30, 2003 FDIC deposit market share report. There are six regional banks and 13 community banks. The AA also has a number of credit unions. The number of financial institutions in the AA provides a competitive banking environment. Thumb NB&T is ranked seventh in market share with 7.1 percent based on deposits in these three counties. Local economic conditions for the Counties of Huron, Sanilac, and Tuscola are considered stable. However, these counties have experienced higher unemployment compared to the State of Michigan as a whole. This is partly due to a loss of manufacturing jobs over the past several

years. The unemployment rate as of November 2003 for Huron County was 8.4 percent, Sanilac County was 9.6 percent, and Tuscola County was 8.2 percent. These unemployment rates compare unfavorably with the State of Michigan overall unemployment rate of 7.1 percent.

We contacted two organizations in the AA to better assess the community needs. One community contact stated there is a great need for farm lending in light of the decision by some local banks to exit this line of business. Another community contact indicated the housing needs for low-income people are not being fully met. This contact indicated many low-income borrowers are unable to qualify for home mortgage loans, rental-dwellings in the area are expensive, and the communities of Huron, Sanilac, and Tuscola could be better served by more affordable multi-family rental housing.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Thumb NB&T's CRA performance was based on five main performance factors: loan-to-deposit ratio, lending in the AA, loans to borrowers of different incomes and businesses of different sizes, geographic distribution, and consumer complaints. Based on these factors Thumb NB&T exhibited a satisfactory record of addressing the credit needs of its AA. As noted above the bank was not evaluated in meeting the needs of the Bay City/Bay County AA given the limited time the bank has been in this market. The bank's satisfactory performance in the Huron, Sanilac, and Tuscola County AA is supported by a good record of lending to borrowers of all income levels, and businesses of different sizes. This is supported by a strong performance of lending to low- and moderate-income people and a reasonable performance of lending to small businesses and small farmers. Thumb NB&T is active in meeting the credit needs of farmers. The bank's loan-to-deposit ratio was found to be more than reasonable and a substantial majority of loans were made in the bank's AA. The geographic distribution of loans reflected a reasonable dispersion throughout the AA.

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

The bank's loan-to-deposit ratio is more than reasonable and represents a strong level of loan activity. Thumb NB&T's average loan-to-deposit ratio since the prior CRA evaluation was 96.8 percent. This compared well with other institutions' loan-to-deposit ratios reported in their most recent Performance Evaluation. The bank has been active in selling loans in the secondary market over the past two years, which has enabled the bank to meet more of the community needs. Single-family mortgage loan sales for the past several years was: 2000 - \$957,300, 2001 - \$19.9 million, 2002 - \$36.2 million, and 2003 - \$34.2 million.

### **Lending in Assessment Area**

A substantial majority of loans were made within the bank's AA based on a sampling of loans. This represents a good lending performance in the AA. As illustrated in Table 3 below 77.6

percent of the number of loans and 77.8 percent of the dollar amount of loans sampled were made in the bank's AA. This is further supported by the bank's internal review, which found over 75 percent of both the dollar amount and number of real estate loans were made in the AA for 2003.

Loan Product	Loans in Sample		Loans In AA		Loans Outside AA	
	#		#	%	#	%
	\$		\$	%	\$	%
Commercial/Business Loans	25		19	76.0%	6	24.0%
	\$5,250,161		\$4,039,733	76.9%	\$1,210,428	23.1%
Agricultural/Farm Loans	21		18	85.7%	3	14.3%
	\$1,963,062		\$1,759,611	89.6%	\$203,451	10.4%
Single Family Mortgage Loans	30		22	73.3%	8	26.7%
	\$2,163,250		\$1,499,650	69.3%	\$663,600	30.7%
<b>Total</b>	76		59	77.6%	17	22.4%
	\$9,376,473		\$7,298,994	77.8%	\$2,077,479	22.2%

Data Source for Origination Data: Bank loan files.

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

Thumb NB&T has demonstrated a good record of lending to borrowers of all income levels, and to businesses of different sizes. A loan sample of single-family mortgage loans from within the AA disclosed a strong record of lending to low- and moderate-income borrowers (see Table 4). Based on a loan sample 18.2 percent of single-family mortgage loans were to low-income borrowers and 36.4 percent were to moderate-income borrowers. This compares favorably with the demographic information, which disclosed 16.0 percent of the families in the AA are low-income and 20.9 percent are moderate-income.

# and \$ of Loans in Sample that were made within the assessment area and included current	Loans to Low Income Borrowers		Loans to Moderate Income Borrowers		Loans to Middle Income Borrowers		Loans to Upper Income Borrowers	
	#	%	#	%	#	%	#	%

income information.	\$	%	\$	%	\$	%	\$	%
22	4	18.2	8		1		9	40.9%
	%		36.4%		4.5%			
\$1,499,650							\$756,500	50.5%
	\$189,100		\$444,050		\$110,000			
	12.6%		29.6%		7.3%			
<b>Demographic Data of the AA –Families by Income Category</b>								
# and % Families	1,736		2,258		2,711		4,106	38.0%
	16.0%		20.9%		25.1%			

Data Source for Origination Data: Bank loan files.

Data Source for Demographic Data: 2000 U.S. Census Data

Thumb NB&T provides flexible lending terms, which include low down payment loan products for homebuyers. These products include a zero percent, three percent, and five percent down payment requirement. At December 31, 2003 the bank reported 64 loans with an outstanding loan balance of \$5.9 million, which were made under these low down payment products. Approximately one-third of these borrowers were either low- or moderate-income.

Over the evaluation period Thumb NB&T made four loans for \$182,500 under the Human Development Commission (HDC) and Michigan’s Mortgage Credit Certificate Program. Both of these loan programs are offered through Michigan State Housing Development Authority (MSHDA) and help to provide affordable housing to those in need.

The bank was found to have a reasonable record of lending to small businesses and small farmers when compared to the AA demographics. Small businesses and farmers are defined as having annual revenues of \$1 million or less. Thumb NB&T is active in meeting the credit needs of farmers by offering a broad range of loan products. A loan sample of 19 commercial loans disclosed 78.9 percent of the loans were to businesses with revenues of one million or less (see Table 5). A loan sample of 18 farm related loans disclosed 94.4 percent of these loans were to businesses with revenues of one million or less (See Table 6). This represents a reasonable record of lending to small businesses and small farmers because it is comparable to the demographic information. Based on the 2000 U.S. Census 90.1 percent of businesses and 98.8 percent of farmers had revenues of \$1 million or less.

<b>Table 5</b>		
<b>Lending Distribution of Loans to Small Businesses Based on Revenue Size</b>		
Revenue Size of Businesses	Percentage of the bank’s Distribution of Loans to Businesses	Percentage of Businesses in Each Revenue Category
\$1 million or under	78.9%	90.1%
Over \$1 million	21.1%	5.6%
Not Reported	N/A	4.3%
Totals	100.0%	100.0%

*Data Source: Sample of 19 commercial loans made in the bank’s AA; 2000 US Census Data.*

<b>Table 6</b>		
<b>Lending Distribution of Loans to Small Farmers Based on Revenue Size</b>		
Revenue Size of	Percentage of the bank’s Distribution of	Percentage of Businesses in Each

Businesses	Loans to Businesses	Revenue Category
\$1 million or under	94.4%	98.8%
Over \$1 million	5.6%	1.0%
Not Reported	N/A	0.2%
Totals	100.0%	100.0%

*Data Source: Sample of 18 farm loans made in the bank's AA; 2000 US Census Data.*

The bank is an active lender under the Farm Service Agency (FSA) and Michigan Zero Percent Loan Program, which provided financial relief to farmers that incurred an operating loss in 2001 or 2002. The FSA is part of the U.S. Department of Agriculture (USDA), which assists in providing loans to farmers that typically would not qualify under traditional lending programs at banks. At December 31, 2003 Thumb NB&T reported 38 FSA loans with an outstanding balance of \$7.8 million. At December 31, 2003 the bank reported 66 loans with an outstanding loan balance of \$4.3 million that were granted under the Michigan Zero Percent Loan Program. This program provided zero percent loans to financially distressed farmers that met certain qualifications established by the State of Michigan. This program was offered in calendar year 2002.

### **Geographic Distribution of Loans**

Thumb NB&T's geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank's AA for Huron, Sanilac, and Tuscola Counties contains no low- or moderate-income tracts. Thumb NB&T is lending in essentially all parts of its AA. This was based on a loan sample and a bank report. The bank report showed that the bank had made real estate mortgage loans in every AA tract in 2003. The report also disclosed the lowest number of real estate loans granted in any one tract was seven and the highest was 90.

The bank's AA for the Bay City/Bay County area was not evaluated given the fact that the bank has been in this market for less than one year, and no meaningful conclusion could be derived.

### **Responses to Complaints**

The bank satisfactorily addressed one complaint over the evaluation period.

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

We found no evidence of illegal discrimination or other illegal credit practices.