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**Small Bank**

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**PUBLIC DISCLOSURE**

June 14, 1999

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

First National Bank of America  
Charter #14740

241 East Saginaw  
East Lansing, Michigan 48823

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

NOTE: 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.

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of **First National Bank of America (FNB)** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of **June 14, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated “**Needs to Improve record of meeting community credit needs.**”

First National Bank of America has addressed the credit needs of its community to a poor degree. This is evidenced by:

- ♀ During the 1997-1998 two-year period, FNB originated 79 loans totaling \$3.9 million within the bank's assessment area. The 79 loans and the purchase of several local land contracts represent all of the bank's CRA-related activity for that time period. This level of activity is considered very low in relation to the bank's capacity and the level of opportunities available to address the credit needs of the community.
- ♀ Seven percent of FNB's loans were made within the bank's assessment area during the two-year period of 1997 and 1998. This is considerably lower than the standard for “satisfactory” performance.
- ♀ Geographic and borrower-income distributions of FNB loans appear to be reasonable from a percentage basis. However, the low volume of loans originated substantially limits the importance of these factors.

## DESCRIPTION OF INSTITUTION

First National Bank of America with total assets of \$393 million as of March 31, 1999, is a full-service community bank located in East Lansing, Michigan. First National Bank of America is a wholly owned subsidiary of First National Bancshares, Inc., a one-bank holding company. First National Bank of America has several non-bank financial service subsidiaries and affiliates, none of which have operations that substantially impact the bank's assessment area. The bank does not have any additional branches, but does have one loan-processing center in Indiana. One full-service automatic teller machine is located at the main office.

First National Bank of America has experienced substantial growth. Total assets increased by \$158 million or 149 percent between December 31, 1996, and March 31, 1999. The bank offers deposit products and services, as well as residential, agricultural, commercial, and consumer loans. The bank and its subsidiaries and affiliates also purchase land contracts and other receivables, substantially all of which are from outside of the bank's assessment area.

First National Bank of America's business plan and strategy center substantially on originating "non-conforming" residential mortgage loans to customers throughout the country. These are loans that do not qualify for sale on the "conforming" secondary market, and include loans to borrowers with credit problems, IRS problems, income that is difficult to verify, and borrowers with a bankruptcy history. Management's election to focus on offering products to a narrow segment of the market impacts the bank's ability to be responsive to the various credit needs within the bank's community. However, no legal impediments that adversely impact the bank's ability to serve the community have been identified.

According to FNB's March 31, 1999, Report of Condition, loans and leases comprise approximately 93 percent of the bank's total assets. The loan portfolio consists of real estate loans (88 percent), commercial and industrial loans (2 percent), and other loans (10 percent). "Other" loans are comprised of warehouse lines of credit to loan brokers, nearly all of which operate substantially outside of the bank's assessment area. Brokers use the lines of credit to purchase loans that are in turn sold to financial institutions, including FNB. During 1998, approximately 42 percent of the FNB's total loans were obtained through loan brokers. The bank is in financially sound condition. Return on average assets was 3.2 percent in 1998 and 3.0 percent in 1997. Return on equity was 39.8 percent in 1998 and 34.1 percent in 1997. The bank is well capitalized for regulatory purposes.

The bank was rated "Satisfactory" at the prior CRA evaluation dated November 6, 1996. This evaluation covers activity from the prior examination through June 14, 1999.

## DESCRIPTION OF ASSESSMENT AREA

First National Bank of America's assessment area consists of the northwest and north central portions of Ingham County in central Michigan and is within the Lansing-East Lansing MSA (#4040). The area includes the cities of Lansing, East Lansing, Haslett and Okemos. The area complies with CRA requirements and does not arbitrarily exclude any low- or moderate-income areas.

Of the 64 census tracts comprising the bank's assessment area, 10 (16 percent) are low-income tracts, 17 (26 percent) are moderate-income tracts, 21 (33 percent) are middle-income tracts, and 16 (25 percent) are upper-income tracts. According to 1990 U.S. Census data, the total number of families within the assessment area is 46,802. Of this total, 24.5 percent are low-income; 17.3 percent are moderate-income; 22.9 percent are middle-income and 35.4 percent are upper-income.<sup>1</sup>

Census data also reflects that the assessment area has a total of 84,122 housing units. Of these, 49 percent are owner-occupied, 45 percent are rental units and 6 percent are vacant. The breakdown of the 41,543 owner-occupied housing units is as follows: 2,742 (6.6 percent) in low-income tracts; 8,389 (20.2 percent) in moderate-income tracts; 16,769 (40.4 percent) in middle-income tracts; and 13,643 (32.8 percent) in upper-income tracts.

Unemployment information obtained from the Michigan Jobs Commission for the month of April 1999 indicates that the unemployment rate for Ingham County is 2.7 percent. This compares favorably to the state average of 3.8 percent and the national average of 4.1 percent for the same time period.

Federal Deposit Insurance Corporation deposit data reflects that FNB had deposits totaling \$166 million as of June 30, 1998, representing a deposit market share of 6.2 percent within Ingham County. However, deposit information is reported based on branch location, and includes deposits from both local and national sources. According to data obtained from bank management, nearly 80 percent of the bank's total deposits are received from areas located outside of its assessment area, including out-of-state markets. First National Bank of America obtains the bulk of its deposits through brokers, service agencies and institutions located nationwide. At May 1999, local deposits totaled \$62 million according to internal FNB reports.

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<sup>1</sup> Income categories are based on the median family income (MFI) of an area, as determined by the U.S. Census Bureau every 10 years. The Department of Housing and Urban Development annually updates income information to determine the income level category of individuals. The median is the point at which half of the families have income above it and half below it. **Low-income** is less than 50 percent of the MFI; **moderate-income** is at least 50 percent and less than 80 percent of the MFI; **middle-income** is at least 80 percent and less than 120 percent of the MFI; **upper-income** is 120 percent or more of the MFI.

Assuming that deposits reported by the other financial institutions in Ingham County are primarily locally derived, FNB's local deposit market share would be less than 2.5 percent. One consumer organization was contacted during the examination. Also, the OCC held meetings with various members of the community during the past year, including organizations and assistance groups focusing on affordable housing and small business needs. Identified needs included more flexible and responsive home ownership loan programs; better consortium lending efforts; additional support for home ownership counseling programs; a micro-loan program; and the need for programs that assist residents in improving their credit ratings. Contacts with the community and the review of other information indicates that there have been ample opportunities for financial institutions to address community needs directly or through working with other organizations.

Opportunities to lend have existed within FNB's assessment area. In aggregate, Home Mortgage Disclosure Act (HMDA) reporters originated 6,312 loans for \$448.6 million within FNB's assessment area during 1997, the most recent period for which aggregate information is available. This included 910 loans for nearly \$33 million to low-income borrowers and 1,167 loans for \$78.5 million to moderate-income borrowers. Of the total loans made by the aggregate market, 453 were made in low-income census tracts while 1,301 were made in moderate-income tracts. This aggregate market activity reflects that there were opportunities to make home purchase, home improvement, home refinance, and multi-family loans within the bank's assessment area during 1997. It is noted that the aggregate market consists of various types of lenders, including financial institutions offering broad arrays of products and lenders offering narrow lines of business. There were also opportunities to make small loans to businesses within the assessment area. According to aggregate small business and small farm data reported for 1997 (the most recent available), there were 2,126 small business loans for \$189 million made within the assessment area. This included 400 loans in low-income census tracts and 482 loans in moderate-income tracts. Aggregate market HMDA and small business and farm data consists of loans made by reporting financial institutions. As some, primarily small, institutions are not required to report data, the activity within a market is understated to some degree.

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

The CRA evaluation included a review of loan activity since the prior evaluation in November 1996. Residential home lending activity was considered, which accounts for 88 percent of the bank's loan portfolio. While the bank makes some small business loans, none were identified as being made within the bank's assessment area. For banks being evaluated under the small bank criteria, only lending activity that occurs within the bank's assessment area is considered when assessing the bank's CRA performance.

First National Bank of America addressed the credit needs of its community to a poor degree during this evaluation period. In drawing our conclusions, we considered the identified needs of the community, the opportunities available to address those needs and to make loans in general, and the capacity of FNB to help address those needs, including making loans. We found that FNB addressed community needs through originating a relatively small number of housing-related loans and through the purchase of a small number of residential land contracts. No other CRA-related activities were identified.

### **Lending in the Assessment Area**

#### **Ë The substantial majority of FNB s lending is outside its assessment area.**

Seven percent of the number of FNB’s loans were made within the bank’s assessment area during the two-year period of 1997 and 1998. This is considerably lower than the standard for “satisfactory” performance.

Management’s election to focus on offering products to a narrow segment of the market has negatively impacted the bank’s ability to be responsive to the various credit needs within the bank’s community. The number and dollar levels of loans FNB originated and purchased within its assessment area are considered low. During the 1997-1998 two-year period, FNB originated 79 loans totaling \$3.9 million within its assessment area. This represents about three loans per month, or less than one loan per week for \$37,500 on average. This level of activity is considered very low in relation to the bank’s capacity and the level of opportunities available to lend in the community, as reflected by loans made by other HMDA reporters. In drawing our conclusions, we considered the fact that FNB derives most if its deposits from non-local sources. However, we determined that FNB’s assessment area loan activity would also be low for a bank with \$62 million in local deposits, given the characteristics of the market. Aggregate HMDA data reflects that over 6,000 loans for nearly \$449 million were originated within the bank’s assessment area in 1997. The bank’s capacity to service its market area is reflected by the 1,021 HMDA-reportable loans for more than \$51 million FNB made outside of its assessment area, along with its earnings record and capital level.

As reflected in Table 1, FNB originated a total of 1,100 HMDA reportable loans during 1997 and 1998. Of this total, only 79 (7 percent) were originated to borrowers located within the bank’s assessment area. During 1998, FNB also purchased 1,371 land contracts totaling \$32.4 million. Of these, 28 (2 percent) for \$844 thousand were located within the bank’s assessment area.

Loan Type	Total Originations		Originated Within Assessment Area		Percent Originated Within Assessment Area	
	#	\$ (000)	#	\$ (000)	#	\$ (000)
Purchase	135	7,166	20	905	14.8	12.6
Home Improvement	283	11,428	13	480	4.6	4.2
Refinance	670	34,969	46	2,537	6.9	7.3
Multi-Family	12	1,534	0	0	0.0	0.0
Total	1,100	55,097	79	3,922	7.2	7.1

Source: 1997 and 1998 FNB HMDA data.

### **Loan to Deposit Ratio**

Ë **First National Bank of America's loan to deposit ratio is high, but is not reflective of the degree in which the bank addresses the credit needs of its local community.**

First National Bank of America's average loan to deposit ratio for the 10 quarters ending March 31, 1999, was 130 percent. The bank's average loan to deposit ratio exceeds 100 percent due to the bank's use of non-deposit funding sources, including advances from the Federal Home Loan Bank. First National Bank of America's loan to deposit ratio is significantly higher than the national peer average of 68 percent for the same time period. However, this is due to the high volume of lending outside of the bank's assessment area. As of May 31, 1999, the bank and its consolidated subsidiaries had approximately \$401 million in loans outstanding. Only \$9 million (2.2 percent) are identified as being loans located within the bank's assessment area.

Management indicated that although its lending within the assessment area is low, lending activities are funded primarily by non-local sources. As of May 31, 1999, the institution has approximately \$287 million in total deposits. Only \$62 million (22 percent) of total deposits were obtained from the bank's assessment area. If the non-local loans and deposits are excluded, the bank's loan to deposit ratio is 15 percent. This ratio is significantly lower than the national peer average, and considered to be less than reasonable. It reflects that for every dollar FNB has in local deposits, it has fifteen cents in loans outstanding to the local market.

### **Geographic Distribution of Loans**

Ë **First National Bank of America's loan distribution within its assessment area appears reasonable based on percentages of loans made to each income segment of the community. However, the small number and dollar volume of loans made within the assessment area limits the importance of this factor.**

Table 2 illustrates the distribution of FNB's 1997 and 1998 HMDA reportable loans within the bank's assessment area, based on census tract income levels. The percentage of loans made to each income segment of the community is reasonably consistent with the percentage of owner-occupied housing units within those respective segments. The percentages of loans made by FNB in low-income and moderate-income areas are higher than the respective percentages of housing units located there. However, the small number and dollar amount of the loans involved limits the degree in which this analysis supports satisfactory performance. The bank originated only 13 loans in low-income tracts and 27 loans in moderate-income tracts within a two-year period. The 28 land contracts within the assessment area purchased by the bank during 1998 are distributed as follows: 12 (43 percent) are located in low-income tracts, 11 (40 percent) are located in moderate-income tracts, three (11 percent) are located in middle-income tracts and two (7 percent) are located in upper income tracts. In aggregate, FNB's performance is low in relation to the bank's capacity and the lending opportunities within the market. Lending opportunities are reflected by aggregate market data reflecting that 453 HMDA loans were made in low-income tracts and HMDA reporters made 1,301 loans in moderate-income tracts in 1997.

	Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts	
	#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$ (000)
FNB 1997 & 1998 HMDA Loans	13	661	27	885	26	1,144	13	1,232
Percent of Total	16.5%	16.9%	34.2%	22.6%	32.9%	29.2%	16.5%	31.4%
Distribution of Owner-Occupied Housing Units In Assessment Area	6.6%		20.2%		40.4%		32.8%	

Source: 1997 and 1998 FNB HMDA data.

The number of loans made by FNB within its assessment area decreased since the prior CRA evaluation. This has impacted the geographic distribution of the bank's lending activity. The November 6, 1996, evaluation reflected that FNB had originated loans in 54 of its 64 (or 84 percent) assessment area census tracts during a nearly two-year period. During the 1997-1998 period, FNB originated loans in 42 or 66 percent of the tracts. While banks are not expected to necessarily lend in each census tract, the current performance reflects a marked decrease in tract coverage since the prior evaluation. Our geographic distribution analyses took into consideration the characteristics of the individual census tracts. According to 1990 U.S. Census data, five of the 22 census tracts where FNB did not originate loans have a very low number of owner-occupied housing units. Therefore, the opportunity to originate housing-related loans in those tracts is limited. Of the remaining 17 tracts, one is designated as low-income and three are designated as moderate-income. In all, 24 percent of the assessment area's owner occupied

housing units and 26 percent of the area’s families are located within those no-activity tracts.

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

Ë **First National Bank of America s loan distribution to borrowers of all income levels appears to be reasonable based on percentages of loans made to each segment of the community. However, the small number and dollar volume of loans made within the assessment area limits the importance of this factor.**

Table 3 illustrates the distribution of FNB’s 1997 and 1998 assessment area HMDA loans among borrower income categories. The percentage of loans made to each borrower income segment of the community is reasonably consistent with the percentage of families within those respective segments. However, the small number and dollar amount of the loans involved limits the degree in which this analysis supports satisfactory performance. First National Bank of America made only 17 loans to low-income applicants and 24 loans to moderate-income applicants within a two-year period. First National Bank of America’s performance is low in relation to the bank’s capacity and the lending opportunities within the market. Lending opportunities are reflected by aggregate market data showing that 910 HMDA loans were made to low-income applicants and 1,167 loans were made to moderate-income applicants by HMDA reporters in 1997.

	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$ (000)
FNB 1997 & 1998 HMDA Loans	17	752	24	947	14	876	23	1,320
% of Total	21.8%	19.3%	30.8%	24.3%	17.9%	22.5%	29.5%	22.9%
Distribution of Families in Assessment Area	24.5%		17.3%		22.9%		35.4%	

Note: Income information was not available for one borrower reported by FNB, and is not reflected above.  
 Source: 1997 and 1998 FNB HMDA data.

**Responses to Complaints**

- **There have been no CRA-related complaints since the prior CRA examination.**
- **No evidence of violations of anti-discrimination laws and regulations was detected.**

We reviewed the bank s underwriting guidelines and a sampling of approved and denied real estate mortgage loan applications based on race. Files of black applicants who were denied credit were compared to files of white applicants who were approved credit. The review found

no evidence that loan decisions were made on a prohibited basis. In addition, the bank received no complaints regarding its CRA activities during the evaluation period.