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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

November 6, 1996

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

**First National Bank of Michigan  
Charter #14740  
241 East Saginaw  
East Lansing, Michigan 48823**

**Office of the Comptroller of the Currency  
Kalamazoo Duty  
4341 South Westnedge, Suite 2108  
Kalamazoo, Michigan 49008**

**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 Community Reinvestment Act (CRA) performance of **First National Bank of Michigan, East Lansing, Michigan** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 6, 1996**. 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 “**Satisfactory Record of Meeting Community Credit Needs**”.

First National Bank of Michigan (FNB) is rated satisfactory because it effectively lends to consumers of all income levels and businesses of different sizes. FNB’s loan to deposit ratio is strong. The bank helps to meet credit needs within its assessment area although the bank’s business plan results in significant lending outside the assessment area.

The following table indicates the performance level of First National Bank of Michigan with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	First National Bank of Michigan PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area			X
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the last examination.		

## DESCRIPTION OF INSTITUTION

First National Bank of Michigan (FNB) is a \$152 million independent community bank located in East Lansing, Michigan. The bank does not have any branches but does have automatic teller machines (ATMs) at its main office and at a second location in East Lansing. FNB is a subsidiary of First National Bancshares, Inc., a one-bank holding company.

FNB makes all types of consumer, real estate and small business loans. FNB's business plan emphasizes making "non-conforming" residential mortgage loans. These are loans that do not qualify (conform) for sale on the secondary market. Many banks do not make non-conforming mortgages because they must be retained by the originating bank. FNB uses flexible underwriting standards to make these loans. Reasons individuals may need non-conforming mortgages include their credit history, the type of collateral or the stability or source of their income. The bank also uses flexible underwriting standards to make small business loans.

As of June 30, 1996, FNB had \$124 million in loans outstanding. This represents 75.7% of total assets. The composition of the bank's loan portfolio is as follows: 58.8% - residential mortgages, 25.5% - commercial and farm loans and 15.7% - loans to individuals. The composition of the loan portfolio is consistent with the bank's use of flexible underwriting standards to make residential mortgage loans and small business loans. There are no financial, legal or other impediments limiting the bank's ability to help meet community credit needs.

FNB was rated satisfactory at its last CRA examination in February 1994.

## DESCRIPTION OF THE BANK'S ASSESSMENT AREA

FNB's assessment area consists of the northwest and north central portions of Ingham County. 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.

The assessment area consists of 64 census tracts. Based on 1990 Census data, there are 10 low-income and 17 moderate-income census tracts within the assessment area. The area also contains 21 middle-income and 16 upper-income census tracts. The 1990 Census family median income for the area is \$38,660. There are 46,802 families in the assessment area. The following table summarizes the location of families, based upon census tract designation.

Location of Families, Based upon Census Tract Income Designation - 1990 Census Date			
Low Income	Moderate Income	Middle Income	Upper Income
10.8%	25.2%	34.9%	29.1%

Economic conditions within Ingham County are good. The area has experienced job growth in the manufacturing and government sectors. The unemployment rate for the Lansing area is 3.3% compared to the state unemployment rate of 4.7%. Significant local employers include General Motors, the State of Michigan and Michigan State University.

Many financial institutions create a highly competitive environment for FNB within the Lansing area. Competitors include local banks, branches of regional banks, thrift institutions, credit unions, finance companies and subsidiaries of regional and multinational banks.

Representatives from community organizations we contacted stated financial institutions in the area are generally addressing local credit needs. However, they said there is a need for additional residential real estate loans in some low- and moderate-income areas and in the area surrounding Michigan State University. Additional lending would fill demand for home improvement and rehabilitation funds. According to one contact, some low-income individuals do not use banks, and a need exists to educate those individuals and encourage them to use bank services.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :**

**LOAN TO DEPOSIT RATIO**

FNB’s loan to deposit ratio is strong. The following table illustrates the trend in the bank’s loan to deposit ratio since the last CRA examination and how it compares to its national peer group average. This peer group represents banks of a similar asset size and branch structure.

Loan to Deposit Ratio Trend			
Date	6/30/96	12/31/95	12/31/94
Bank Ratio	115.33	93.87	95.43
Peer Ratio	65.59	63.81	62.48

As the table shows, FNB’s loan to deposit ratio significantly exceeds its peers since December 31, 1994. FNB’s average ratio for this time period is 96.55% compared to the average ratio of 63.24% for the peer group banks. The current loan to deposit ratio exceeds 100% because of the bank’s use of non-deposit funding sources, including advances from the Federal Home Loan Bank.

**LENDING IN ASSESSMENT AREA**

FNB originates fewer loans within the assessment area because of the specialized nature of its primary lending program. The bank makes loans throughout the state of Michigan to obtain its desired volume of “non-conforming” residential mortgage loans. The following table on Page 6 illustrates that the bank makes the majority of its loans outside its assessment area.

Lending Within Assessment Area - Home Mortgage Disclosure Act (HMDA) Information				
Dates	1996 YTD HMDA Loans		1995 HMDA Loans	
	Within Area	Outside Area	Within Area	Outside Area
# of Loans	48	344	85	502
\$ of Loans (\$000s)	1,569	12,843	3,933	12,843
% - # of Loans	12.2%	87.8%	14.5%	85.5%
% - \$ of Loans	10.9%	89.1%	13.9%	86.1%

We also reviewed the location of an additional sample of 32 loans (15 consumer and 17 commercial) originated during 1995 and 1996 that were not included in the HMDA information. Of these loans, four consumer loans and three commercial loans were originated within FNB's assessment area.

Although the volume of loans made within the assessment area is low, FNB helps meet credit needs of the area through particular residential mortgage products. FNB's market share in these products is high, particularly since it competes with much larger financial institutions. Based upon 1995 HMDA information, FNB refinanced the second-highest number of residential mortgage loans of any financial institution within its assessment area. Its market share was 6.21%, based upon the number of loans refinanced during 1995.

#### LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank effectively lends to borrowers of all income levels. We used HMDA information for 1995 and year-to-date 1996 to analyze the distribution of those loans, based upon the income of the borrowers. The following table shows the distribution of those loans within the bank's assessment area. It also compares this distribution to the number of families of each income level in the assessment area, using 1990 Census data.

Residential Real Estate Lending Distribution by Borrower Income - HMDA Analysis								
	Low		Moderate		Middle		Upper	
	% - #	% - \$	% - #	% - \$	% - #	% - \$	% - #	% - \$
1996 HMDA	14.6%	15.6%	12.5%	7.4%	22.9%	23.1%	50.0%	53.9%
1995 HMDA	14.3%	8.3%	13.1%	6.7%	32.1%	27.4%	40.5%	57.6%
% of Families	24.52%		17.26%		22.86%		35.37%	

FNB's loan distribution reflects a reasonable loan distribution to all income levels.

Additionally, we reviewed 1996 HMDA information to compare the incomes of borrowers outside the assessment area to the state-wide family income of \$44,400. The following table reflects good penetration of the bank's loans to all income segments.

Residential Real Estate Lending Distribution by Borrower Income - HMDA Information Outside FNB's Assessment Area								
	Low		Moderate		Middle		Upper	
	% - #	% - \$	% - #	% - \$	% - #	% - \$	% - #	% - \$
1996 HMDA	16.9%	12.6%	25.3%	20.7%	27%	27.1%	30.5%	39.1%

We reviewed our sample of commercial loans made within FNB's assessment area to assess the bank's volume of lending to small businesses. Within our sample, each of these commercial borrowers has gross annual revenues under \$1 million. This is consistent with the size of the bank's loans to these borrowers because the loans are for less than \$1 million.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans within the bank's assessment area is reasonable. The review of HMDA information for 1995 and year-to-date 1996 reveals that FNB originated loans in 54 of the 65 census tracts within its assessment area. As the following table indicates, approximately 50% of the residential mortgage loans originated in the bank's assessment area during 1995 and 1996 were originated in low- and moderate-income areas.

Residential Real Estate Lending Distribution by Census Tract Income - HMDA Analysis								
	Low		Moderate		Middle		Upper	
	% - #	% - \$	% - #	% - \$	% - #	% - \$	% - #	% - \$
1996 HMDA	22.9%	19%	25%	26.6%	37.5%	34.2%	14.6%	20.2%
1995 HMDA	27.1%	23%	32.9%	34.5%	22.4%	18.9%	17.6%	23.6%

#### RESPONSES TO COMPLAINTS

There have been no CRA-related complaints since the prior CRA examination.

We did not identify any violations of the substantive provisions of antidiscrimination laws and regulations.