



## **PUBLIC DISCLOSURE**

**August 3, 1998**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Thumb National Bank & Trust Co.  
Charter #15817

7254 Michigan Ave.  
Pigeon, Michigan 48755

Comptroller of the Currency  
Central District Office  
One Financial Place, Suite 2700  
440 South LaSalle Street  
Chicago, Illinois 60605

**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 income 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 **Thumb National Bank & Trust Co.** prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of **August 3, 1998**. 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 has a “**Satisfactory**” record of meeting community credit needs.”

This examination covers the period of February 27, 1996 to August 3, 1998. The bank's previous CRA rating was “Satisfactory” as of February 26, 1996.

This rating is based on:

- ◆ Thumb National Bank's (TNB) exemplary record of granting loans to borrowers of different income levels and businesses of different sizes and the high level of participation in flexible lending programs. Our review showed that 100% of the commercial and agricultural loans originated were small business or small farm loans.
- ◆ The bank's strong loan to deposit ratio which averaged 86% over the past eight calendar quarters. The ratio exceeds national peer and similarly situated banks by 13% to 18%.
- ◆ TNB's good loan distribution throughout its Assessment Area (AA). TNB has originated loans in each Block Numbering Area (BNA) throughout its AA.
- ◆ The bank's reasonable record of lending within the AA. TNB originated 89% of its loans within the AA.

## ***DESCRIPTION OF INSTITUTION***

Thumb National Bank & Trust (TNB) is a full-service community bank located 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. TNB has a main office and two branches for a total of three offices. The branches are located 7 and 22 miles from the main office. Automated Teller Machines (ATM's) are located at Caseville, Cass City and Pigeon. TNB offers traditional deposit products, including no and low cost checking accounts. Additionally, the bank offers trust services. Total assets as of June 30, 1998 are \$120 million with loans of \$95 million representing 80% of assets.

The bank is a strong agricultural lender offering ten different types of agricultural loan products. Other loan products offered by the bank include residential real estate mortgages, home improvement loans, home equity loans, secured and unsecured installment loans, commercial real estate and other commercial loans. Agriculture related loans represent the largest number of loans originated since the previous examination, while the largest dollar volume originated was in residential real estate loans.

<b><i>Table 1. Loans by Type</i></b>		
<b><i>(\$000's)</i></b>		
<b><i>Assets</i></b>	<b><i>June 30, 1998</i></b>	
	<b><i>\$</i></b>	<b><i>%</i></b>
Real Estate Loans	\$47,211	49%
Commercial Loans	\$16,512	17%
Individual Loans	\$7,822	8%
Agriculture Loans	\$24,123	26%
<b><i>TOTALS</i></b>	<b><i>\$95,688</i></b>	<b><i>100%</i></b>

*Source: Call Report Data*

Competition is considered significant within the AA. The bank's AA has thirteen other financial institutions that serve the community, two of which are credit unions. Within the AA are four similarly situated banks. Federal Deposit Insurance Corporation (FDIC) data shows these financial institutions operate a total of 25 branches within the AA. The institutions within the AA ranged in asset size from \$25 million to \$158 million on December 31, 1997. Those headquartered outside the AA ranged in asset size from \$48 million to \$674 million.

## ***DESCRIPTION OF ASSESSMENT AREA***

The bank's AA includes 11 BNA's that include portions of Huron, Sanilac, and Tuscola Counties. All BNA's in Huron County are middle income except for one moderate income BNA in Huron County. Albert Sleeper State Park and Rush Lake encompass a substantial part of the BNA. These three counties are in a rural area and are bordered on the East by Lake Huron and on the West by Saginaw Bay. The bank's offices and Automated Teller Machines are located in Huron and Tuscola counties.

The AA labor force and employment grew each year from 1995 - 1998. Despite the growth, area unemployment for year end 1997 was higher than the year end state average of 4.7% by 1% - 3% in each county of the AA. Seasonally adjusted, 1998 unemployment statistics are consistent with the state average.

Total population within the bank's AA is 36,138. The main industries in the area are agriculture, services, manufacturing and retail trade. Agriculture represents a large portion of the economy with 1,392 farms averaging 331 acres in the tri county area. Farm land represents 82% of the total land. The largest individual employers are Active Industries, Inc. and Sebewaing Industries, Inc., both producers of metal stampings. Wal-Mart is the largest employer for retail trade.

The updated annual median family income for this AA is \$37,100. Low income for this AA is defined as households earning less than \$18,550 per year. Moderate income is up to \$29,680 per year with middle income at \$29,681 - \$44,520 and upper income earning more than \$44,521.

Table 2 categorizes families by their income level in Thumb National Bank's AA:

<b><i>Table 2. Percentage of Families by Income Level</i></b>		
<i>Income Level</i>	<i>Number of Families</i>	<i>Percentage of Total Families</i>
Low Income	1,975	19.29%
Moderate Income	1,906	18.62%
Middle Income	2,387	23.31%
Upper Income	3,971	38.78%
<b>TOTAL</b>	10,239	100.00%

*Source: Census Data 1990*

The examination process included three community contacts. The individuals were complimentary of TNB meeting the community credit needs. They stated housing was not a community credit need, but identified agriculture as a key credit need in the community.

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

To assess the Bank's performance under the Community Reinvestment Act, we sampled real estate, commercial and agricultural loans. These loans were determined to be representative of loans made since the prior evaluation. We used a judgmental sample of loans for the period covering January 1, 1997 through June 30, 1998. We sampled 60 real estate loans totaling \$3.454 Million; 19 agricultural loans totaling \$1.357 Million; and 17 commercial loans totaling \$1.768 Million.

### **LOAN TO DEPOSIT RATIO**

TNB's loan to deposit ratio is excellent and well above local similarly situated banks and national peer. It averages 86% for the last 8 quarters beginning with September 30, 1996 and ending June 30, 1998. National and local similarly situated peer averages were 73% and 68% respectively. The highest ratio attained by TNB during this period was 93.59% on June 30, 1998 and the lowest was 78% on December 31, 1996. This is consistent with the bank's seasonal agricultural loan demand and the bank's strategic plan.

### **LENDING IN THE ASSESSMENT AREA**

The bank has a reasonable record of lending within their AA. Of the loans reviewed, 89% of the number of loans made and 92% of the dollars of those loans for the years 1997 - 1998 were within the bank's AA.

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

Thumb National Bank has experienced growth in its residential mortgage portfolio since our last examination. Our review of the residential related loans for the time period of January 1, 1997 - June 30, 1998 shows that TNB's lending to borrowers of different income levels is satisfactory.

<b><i>Table 3. Mortgage Lending versus Demographic Data</i></b>			
<b>Income Type</b>	<b># of Loans Originated by Percentage</b>	<b>\$ of Loans Originated by Percentage</b>	<b>Percentage of Families in AA</b>
Low Income	10.00%	3.50%	19.29%
Moderate Income	18.33%	12.29%	18.62%
Middle Income	26.67%	26.70%	23.33%
Upper Income	41.67%	57.48%	38.78%

*Source: Loan Sample*

The above table demonstrates that TNB originations of residential real estate loans exceeded or was consistent with the demographics of the community with the exception of their lending performance to low income borrowers. TNB's lesser performance in lending to low income borrowers is attributed to the bank's limited product offering for real estate related loans. Also, TNB does not currently participate in government guaranteed or secondary market residential loan programs. In the AA are several mortgage lenders, regional and local lenders that fulfill this need.

The bank has an excellent record of lending to small businesses and originating small business loans. Small business loans are defined as loans whose original amounts are \$1 Million or less and were reported as loans secured by non-farm or nonresidential real estate or commercial and industrial loans. Small farm loans are defined as loans \$500,000 or less or loans originated for financing agricultural production, loans to farmers, or loans secured by a farm. One hundred percent of TNB's loans sampled were small businesses or small farm loans. A substantial majority (94%) of the loans originated were to small businesses or small farms.

<b>Table 4. Small Business &amp; Farm Loans by Originations</b>				
<b>Loan Amount (\$000's)</b>	<b>Loan Originations Sampling January 1, 1997 - June 30, 1998</b>			
	<b>Number of Loans Sampled</b>	<b>Percentages by Number</b>	<b>Dollars of Loans Originated</b>	<b>Percentages by Dollars</b>
Less Than \$250,000	34	94.44%	2,381	76.05%
\$250,000 - \$500,000	2	5.56%	750	23.95%
\$500,000 - \$750,000	0	0.00%	0	0.00%
\$750,000 - \$1,000,000	0	0.00%	0	0.00%
Over \$1,000,000	0	0.00%	0	0.00%
<b>TOTALS</b>	36	100.00%	3,131	100.00%

Source: Loan Sample

Numbers may add differently due to rounding

The bank is the premier agricultural lender in the community and is actively involved in agricultural community development. TNB has a high level of involvement in start-up ventures and government guaranteed agriculture loans.

Thumb National Bank is an active participant in government insured loan guaranty programs. Farm Service Agency (FSA) loan origination information was available only for 1998. The bank originated two loans totalling \$378,940. As of June 30, 1998, the bank had 21 loans totaling approximating \$4 Million in Farm Service Agency (FSA) guaranteed agricultural loan programs. This government guaranty program provides individuals farm credit that would not normally qualify for conventional financing. Statistics from the FSA rank TNB as the largest community bank agricultural lender in its AA.

The bank originated eight loans totaling \$116,250 at a preferred rate and flexible terms for local farmers to purchase ownership in the Thumb Oil Seed Co-Op. This co-op is a joint initiative with the Huron County Economic Development Corporation (EDC), Michigan State University Co-Operative Extension Service and local farm investors. The new co-op allows farmers to diversify their bean crops by selling raw and finished products. This initiative promotes economic development and stabilizes the economy. The bank played a key role in promoting the cooperative's benefits to local farmers and providing the necessary financing.

TNB financed loans at preferred rates and flexible terms for livestock farmers to start-up a co-op. Triangle Farms is a Farrow to Finish hog operation co-op that was recently established in the area to better manage economies of scale. There are 27 members in the co-op of which TNB provided financing to 11 farmers approximating \$700,000 to invest in the project.

### **GEOGRAPHIC DISTRIBUTION**

TNB's geographic distribution of loans is good. Our review showed that the bank's has penetrated all of its BNA's in the AA with at least one loan product. The AA consists of one moderate income BNA and ten middle income BNAs. The former BNA includes a state park and lake and is located between the towns of Caseville and Port Austin. This BNA contains only 2% of the families in the AA. In visiting the community, there are no farms in this area and there are only a few small businesses, such as gas stations and mini-marts. Since demographic and geographical impediments affect the moderate income BNA, this BNA was not weighted significantly.

### **SERVICES AND INVESTMENTS**

The bank is a member of Tuscola County EDC and serves as a member of the revolving loan fund committee. This committee provides alternative loans to developers for job creation within the county. The total number of jobs retained and created for the past year was 1,176. The average salary was within the moderate income range for the AA. EDC revolving loan funds are reserved for non-traditional borrowers for community development who could not obtain conventional financing, local government concessions or special utility considerations in a packaged format.

### **RESPONSE TO CONSUMER COMPLAINTS**

Our agency has not received any consumer complaints relating to the bank's CRA performance.

### **ANTI-DISCRIMINATION LAWS**

We did not identify any substantive provisions of the anti-discrimination laws and regulations during a separate Fair Lending Examination done in concurrence with this examination.