



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank Of Cheboygan
Charter Number 13522**

**303 N. Main Street
Cheboygan, Michigan 49721**

**Comptroller of the Currency
Detroit-Kalamazoo 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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The geographic distribution of loans reflects a reasonable dispersion throughout the Assessment Area. Additionally, the geographic distribution of loans is similar to the demographic composition of the bank's Assessment Area.
- Citizens National Bank of Cheboygan has demonstrated a reasonable record of originating loans to individuals of different income levels and businesses of different sizes.
- Citizens National Bank of Cheboygan's loan-to-deposit ratio is reasonable. This ratio is consistent with lenders of similar size, similar structure, and location.
- A substantial majority of the bank's loans were made within its designated Assessment Area.

DESCRIPTION OF INSTITUTION

Citizens National Bank of Cheboygan (CNB) is a full-service community bank headquartered in Cheboygan, Michigan. CNB is a wholly owned subsidiary of a one-bank holding company CNB Corporation with assets of \$233 million. Citizens National Bank has one subsidiary, CNB Mortgage Corporation (CNB-MC), a wholly owned bank subsidiary incorporated in Michigan in September 2001. CNB is a five-branch intrastate bank with branches in Indian River, Onaway, Pellston, and Mackinaw City. CNB's main office is located in Cheboygan and includes an automatic teller machine (ATM). The Indian River, Onaway, and Mackinaw City branches operate drive-through service windows and include ATMs. CNB also operates three stand-alone drive-through facilities and three off-premise non-deposit ATMs in Cheboygan. CNB's Pellston branch operates one off-premise non-deposit ATM within the City of Pellston.

As of March 31, 2002, CNB had total assets of \$233 million. CNB's loan portfolio represented 61.4 percent of total assets as of March 31, 2002 and Tier 1 capital was \$23 million. CNB's strategy is to provide quality financial services that meet the needs of the customers and the communities it services. CNB's primary focus is residential mortgage lending. Consideration was given to CNB's record of performance from the previous evaluation period of December 24, 1996 through May 13, 2002. The loan portfolio is summarized in Table 1.

Table 1		
CNB Loan Portfolio as of March 31, 2002		
Residential Mortgage Loans	\$74,763,000	52.24%
Commercial Loans	\$43,106,000	30.12%
Consumer Retail Loans	\$11,283,000	7.88%
Construction and Land Development Loans	\$6,888,000	4.81%
Home Equity Loans	\$3,686,000	2.58%
Home Equity Credit Lines	\$3,239,000	2.26%
Public Loans	\$84,000	0.06%
Other Loans	\$53,000	0.04%
Agricultural Loans	\$2,000	0.01%
Total Loans Outstanding 3/31/02	\$143,104,000	100.00%

Data Source: Citizens National Bank Call Report March 31, 2002.

As of the date of this evaluation, CNB does not have any financial, legal, or other impediments restricting its capacity to serve the community. CNB was rated satisfactory during the last CRA evaluation, which was conducted on December 24, 1996.

DESCRIPTION OF ASSESSMENT AREA

CNB's assessment area (AA) consists of the northeast section of Michigan's lower peninsula and includes all of Cheboygan county and portions of Emmet and Presque Isle counties. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of fourteen Block Numbering Areas (BNAs). Two BNA's are designated as moderate-income and one as not applicable (NA). There are no low-income geographies in the assessment area.

The AA is a thinly populated area. Population per square mile within the AA is significantly below state average and growth has remained relatively stable for the past ten years. Based on 2000 census data, the state average for persons per square mile is 175, while the persons per square mile for Cheboygan, Emmet, and Presque Isle Counties average 42. The AA is bounded to the north by Lake Huron and contains over 90 miles of inland lakes and rivers. Tourism and related industries represent a major influence in the business area. The area is a desirable retirement and vacation destination. Second home properties represent a large percentage of the total housing within the AA.

The average state unemployment rate as of May 13, 2002 is 5.3 percent. However, unemployment levels within the AA are seasonal. During the winter season, the unemployment rate reaches over 15% and drops below the state average during the spring and summer tourist season. Major employers include local hospitals, school systems, county and city governments, and small construction and manufacturing firms.

Several financial institutions and mortgage brokers provide competition in the AA. These competitors are either located within the AA or provide lending services by Internet, mail, or circuit lending. There are two large commercial banks, four community banks, and two credit unions located within the AA. Other institutions and mortgage brokers not located in the AA also provide home lending services. Using 2000 peer mortgage data, we determined that twenty-one other competitors have provided lending services by mail, Internet, and circuit lending.

Four community contacts were made during this evaluation. The community contacts included three service organizations and one local realtor. The community contacts identified the need for low-income and moderate-income housing, and home improvement lending opportunities.

The 2001 HUD adjusted non-MSA median family income level is \$42,700. The weighted average price of housing as of 1990 demographic totaled \$47,978. However, according to the Emmet County Association of Realtors, the average price of homes within the AA is \$113,100.

Table 2		
Demographic data for CNB's AA		
1990 Population Information		
Population	33,126	
Number of Families	9,382	
Percentage of Families by Income		
• Low Income Families	23.27%	
• Moderate Income Families	21.95%	
• Middle Income Families	25.23%	
• Upper Income Families	29.56%	
Unemployment (<i>Average Rate</i>)		
January 2001 through March 2002	16.00%*	
BNA Characteristics (<i>Based on HUD Median Family Income</i>)		
• Low (below 50% of median)	0	0.00%
• Moderate (50-80% of median)	2	14.29%
• Middle (80-120% of median)	11	78.57%
• Upper (over 120% of median)	0	0.00%
• NA	1	7.14%
Housing Information		
• Owner Occupied Units	10,240	46.70%
• Rental Occupied Units	2,457	11.20%
• Vacant Housing	9,232	42.10%

Data Source: 1990 U.S. Census data; Michigan Office of Labor Market Information

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable and demonstrates a willingness to provide financial services to the communities it serves. CNB's average net quarterly loan-to-deposit ratio for the time period of December 24, 1996 through March 31, 2002 was 80.70 percent, which includes mortgage loans sold to secondary market investors. Banks of similar size (\$100 million to \$250 million) throughout Northern Lower Peninsula Michigan had loan-to-deposit ratios ranging from 63.10 percent to 100.60 percent. Other banks of similar asset size (\$230 million to \$243 million) throughout the Lower Peninsula of Michigan had loan-to-deposit ratios ranging from 61.27 percent to 93.05 percent. During our assessment of the bank's loan-to-deposit ratio, we determined that CNB's average loan-to-deposit ratio ranked third within the banks of Northern Lower Peninsula Michigan and fourth within the banks of the Lower Peninsula of Michigan.

Lending in Assessment Area

A substantial majority of loans are in the bank's AA. During the evaluation we sampled 20 loans each from the bank's primary loan types. The loans were originated during the time period of March 31, 1999 through March 31, 2002. Table 3 below indicates that 88.33 percent of the loans sampled during our evaluation were within the bank's AA. This ratio is consistent with the previous CRA evaluation that was conducted in December 1996.

CNB has also developed or participated in other lending related activities for the areas that it serves. For example, CNB has developed and marketed a loan product known as a Façade Loan to local communities that the bank is located in. The purpose of the façade loan is to provide low cost funding for local businesses to improve the front façade of their building. This is expected to improve the downtown area and increase customer traffic, which will help increase employment. During the time period of April 27, 2000 through March 31, 2002, the bank originated eight loans for \$326,000 to businesses with revenues under \$1 million.

Loan Product	Number of Loans in Sample #	Dollar Value of Loans Sampled Inside AA \$	Dollar Value of Loans Sampled Outside AA \$	Loans in Assessment Area		Loans outside of Assessment Area	
				#	%	#	%
Consumer	20	94,649.00	16,801.00	16	80.00%	4	20.00%
Real Estate	20	1,255,121.47	105,000.00	19	95.00%	1	5.00%
Commercial	20	1,016,428.23	127,199.33	18	90.00%	2	10.00%
Total Sample	60	2,366,198.70	249,000.23	53	88.33%	7	11.67%

Data Source: Random sample of 20 loans from the bank's three primary loan portfolios.

Other lending related activities within the bank are service oriented. For example, CNB personnel have developed a program that educates members of the Burt Lake Tribe of Chippewa Indians regarding banking, financial services, and personal finance. CNB personnel also volunteer their time to Habitat for Humanity and Casual for a Cause, which organizations serve or benefit the low-income individuals within the bank's AA.

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

The bank's lending to borrowers of different incomes and to businesses of different sizes is reasonable. CNB's primary product lines include residential real estate mortgages, commercial loans, and consumer retail loans. Residential real estate mortgages comprise the largest portion of the bank's loan portfolio. During the evaluation, a random sample of 20 loans from each of the three largest product lines was taken. The loans sampled were originated during the period of March 31, 1999 through March 31, 2002. Additionally, internally generated mortgage reports indicating the number and dollar amount of mortgage loans to low and moderate-income borrowers were tested for accuracy and used in our evaluation. These reports covered a period of January 1, 1999 through March 31, 2002.

Borrower Income Level	Bank Residential Real Estate Lending Distribution by Number of Mortgage Loans to Mortgage Loans Originated			Percentage of Families in Each Income Category
	#	%	\$	%
Low	45	5.39%	\$1,438,000	23.27%
Moderate	120	14.37%	\$5,729,000	21.95%
Middle	286	34.25%	\$16,096,000	25.23%
Upper	384	45.99%	\$38,018,000	29.56%
Total	835	100.00%	\$61,281,000	100.00%

Data Source: Internal bank mortgage report; 1990 US Census Data

The bank's distribution of residential real estate lending to borrowers of different income levels is reasonable. Lending to low and moderate-income borrowers is below the percentage of families for each income category. Factors affecting the bank's mortgage lending to low and moderate-income borrowers are the AA's high unemployment rate, housing values, and competition. Additionally, 16.16 percent, or 2,046, of the households within the bank's AA are below poverty level.

CNB has recognized that affordable housing for low-income individuals is a need within their AA. In order to provide mortgage-lending programs designed for low to moderate-income individuals, the bank offers financing through Michigan State Housing Development Authority (MSHDA) and Rural Housing. For the period of June 24, 1997 through March 31, 2002, the bank originated 35 MSHDA loans for \$298,729. Since the previous CRA evaluation, the bank has originated 40 Rural Housing loans with total outstanding principal balances of \$1,880,670.

Although CNB's percentage of lending to small businesses is less than the percentage of small businesses within the bank's AA, a majority of the bank's commercial loans are made to businesses with revenues less than \$1 million. This is demonstrated in Table 5. The primary factor affecting the bank's lending to small businesses is competition within the AA.

Revenue Size of Businesses Sampled	Bank Distribution of Commercial Loans by Number of Loans Sampled	HMDA Reporting Bank's Distribution of Commercial Loans	Percentage of Businesses in Each Revenue Category
Under \$1 million	75.00%	87.68%	87.86%
\$1 million and above	25.00%	4.60%	4.72%
Not Reported	0.00%	7.72%	7.42%
Totals	100.00%	100.00%	100.00%

Data Source: Random sample of 20 commercial loans; 1990 US Census Data.

As stated previously, the bank has developed and marketed a commercial loan product known as a Façade loan. During the period of April 27, 2000 through March 31, 2002, the bank originated eight loans for \$326,000 to businesses with revenues under \$1 million.

Geographic Distribution of Loans

CNB's geographic distribution of loans reflects a reasonable dispersion throughout the AA. During the evaluation we sampled 60 loans from the bank's three primary lending products. We then used the Federal Financial Institution Examination Council's (FFIEC) geocoding system and the Internet's MapQuest to determine the exact location of the borrower's address in the AA. As demonstrated in Table 8, our analysis identified that the dispersion of loans reasonably reflects the demographic composition of the bank's AA. There is limited number of opportunities for the bank to make residential real estate loans within the two moderate-income tracts of the AA. The low number of moderate-income tracts and competition within the bank's AA affects this. Additionally, 39.67 percent of the homes in the two moderate-income tracts are vacant homes and only 15.12 percent of the population is located within these two tracts.

BNA Income Category	Low Income		Moderate Income		Middle Income		Upper Income		Not Applicable	
Percentage of Bank Mortgage Loans made in each BNA Income Category	0	0.00%	2	10.00%	18	90.00%	0	0.00%	0	0.00%
Percentage of Bank Commercial Loans made in each BNA Income Category	0	0.00%	0	0.00%	20	100.00%	0	0.00%	0	0.00%
Percentage of Housing Units Located in Each BNA tract	0	0.00%	3058	13.95%	18,871	86.05%	0	0.00%	0	0.00%
Percentage of BNAs by Income Category within Assessment Area	0	0.00%	2	14.29%	11	78.57%	0	0.00%	1	7.14%

Data Source: 1990 US Census; Random sample of 20 Mortgage loans

Qualified Investments and CD Services (Optional)

During our evaluation, we determined that the bank participates in many community support activities. The following donations and activities were found to be specifically for low- and moderate-income individuals.

- Since the previous examination the bank has made charitable contributions to three organizations that primarily deal with low- and moderate-income people. Charitable contributions were made to Habitat for Humanity, Salvation Army, and Crisis Pregnancy Center in the amount of \$10,515.46.
- Bank personnel have volunteered their time and service to organizations that provide community development services for low- and moderate-income individuals.
 - Cheboygan County Housing Commission – This organization offers a program to provide funding to rehabilitate homes for low- and moderate-income individuals.

- Casual for a cause - Casual for a cause provides cash assistance to low-income residents within the bank's AA for medical or personal situations.
- A senior officer of the bank is currently working with the Burt Lake Band of Chippewa Indians (BLBCI) and Michigan State University extension office to educate members of the BLBCI about banking and personal finance.

Responses to Complaints

CNB has not received any complaints that affect the bank's Community Reinvestment Act rating.

Fair Lending Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in December 1996.