



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**March 04, 2002**

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

**First National Bank of Crystal Falls  
Charter Number 14269**

**125 Superior Avenue  
Crystal Falls, MI 49920**

**Office of the Comptroller of the Currency  
Iron Mountain Field Office  
P.O. Box 666  
Iron Mountain, MI 49801**

**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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## **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 the First National Bank of Crystal Falls, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 4, 2002. 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**.

- The bank has a reasonable distribution of lending to businesses of different sizes given the demographics of the assessment area.
- The bank has an adequate distribution of loans to individuals of different income levels, including low- and moderate-income levels.
- The bank originates a satisfactory number of loans inside its assessment area.
- The bank has a reasonable loan-to-deposit ratio.

## **DESCRIPTION OF INSTITUTION:**

The First National Bank of Crystal Falls is a \$61 million bank with the main office located in downtown Crystal Falls, Michigan, a middle-income Block Numbering Area (BNA). The bank operates one full-service branch located in Sagola, Michigan, a middle-income BNA. The bank also maintains six ATMs: two in Crystal Falls, one of which is at the main office, one in Sagola, one in Iron Mountain, Michigan, one in Amasa, Michigan, and one in Republic, Michigan. The ATM located at the main office has 24-hour access while the remaining five are accessible during business hours only. No offices have opened or closed since our last CRA examination on September 16, 1997. The bank is wholly owned by C.F.C. Bankcorp, Inc., a one-bank holding company located in Crystal Falls, Michigan.

The bank offers traditional community bank services with a loan portfolio representing 75% of total assets as of December 31, 2001. The First National Bank of Crystal Falls is primarily a residential real estate and small business lender. The bank's loan portfolio consists of 46% residential real estate mortgages, 42% commercial loans and 12% consumer loans.

There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

The previous CRA examination dated September 16, 1997 resulted in a satisfactory CRA rating.

## **DESCRIPTION OF THE ASSESSMENT AREA:**

The assessment area includes the eastern half of Iron County and the northern half of Dickinson County. This area includes two moderate-income and three middle-income BNAs. The bank's main office and branch are located in middle-income BNAs. The two moderate-income BNAs are located in Iron County, on the outer edge of the bank's assessment area. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The population of the assessment area is 13,222, based on 1990 census data. The updated Housing and Urban Development (HUD) 2001 median family income for non-metropolitan areas in Michigan is \$42,700. A breakdown of family income levels in the assessment area shows 27% as low-income (1,030 families), 25% as moderate-income (948 families), 22% as middle-income (843 families) and 26% as upper-income (963 families). A total of 477 families have incomes below the poverty level. This represents 13% of the total number of families in the assessment area. The median housing value within the assessment area is \$31,249, with 53% of the housing units being owner-occupied.

The local economy is characterized as slow but stable with little change in industry or individual demographic composition. Tourism, logging, government units and the local school district make up the major employers in the area. Unemployment in the local area has seen a slight increase in the last two months of 2001; however, it remains below the 2001 average for the Upper Peninsula of 6.5%. The 2001 average unemployment rate for Dickinson County was 4.8%, with Iron County at 6.2%.

Competition among financial institutions remains strong in the local market, with a branch of a large Michigan bank, a branch of a multi-state bank, a branch of a savings bank and a local credit union located in Crystal Falls. One community bank, a credit union, and a branch of a multi-state bank are located in Iron River, Michigan.

In conducting this assessment of the bank's performance, we contacted a local realtor. The realtor believes that the credit needs of the community are being met by the local financial institutions. With the strong competition among lenders in the area, the realtor considers access to credit by borrowers in all income levels to be satisfactory.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA:**

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

The bank's loan-to-deposit ratio is reasonable. The First National Bank of Crystal Falls' average quarterly loan-to-deposit ratio since the last examination is 82%. The average quarterly loan-to-

deposit ratio for four other community banks located within 40 miles of the bank is 88%. The First National Bank of Crystal Falls has the second largest level of average assets of these banks at \$59 million. The other bank's average assets ranged from \$40 million to \$189 million. The average loan-to-deposit ratios for the similarly situated banks range from 78% to 100% over the same time period.

**Lending in Assessment Area**

The bank's lending in its assessment area is satisfactory. The First National Bank of Crystal Falls originates an adequate number of its loans inside its assessment area. This conclusion is based on an analysis of the outstanding dollar amount and number of all commercial, residential real estate and consumer loans originated or refinanced by the bank between January 2001 and March 2002. A comparison of zip code and BNA boundaries indicated they are similar; therefore, the location of borrowers with loans in the selected time period was determined using their zip code as a proxy for the BNA address. A system report sorted by zip code and loan type was generated to complete the analysis. The following table illustrates the level of lending inside the bank's assessment area:

<b>Penetration of Lending Inside the Bank's Assessment Area January 2001 - March 2002 Loan Originations</b>		
	<b>% of Total Number of Loans Inside the Assessment Area</b>	<b>% of Total Dollar Amount of Loans Inside the Assessment Area</b>
Commercial Loans	76%	57%
Consumer Loans	73%	65%
Residential Real Estate Mortgages	67%	65%
Total	73%	60%

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

The bank does a satisfactory job of lending to borrowers of different income levels and to businesses of different sizes. The bank's primary loan products were used in our sample and are depicted in the following tables. A sample of 20 commercial customers located in the bank's assessment area indicates the following breakdown of annual revenues:

<b>Lending Distribution Based on Revenue Size of Businesses September 2001 – March 2002</b>			
<b>Revenue Size of Businesses Sampled (000's)</b>	<b>Bank Lending Distribution by Number of Loans</b>	<b>Percent</b>	<b>Percentage of Businesses in Each Revenue Category (census information)</b>
< \$100	8	40%	88%
\$100 - \$500	6	30%	
\$500 - \$1,000	3	15%	6%
> \$1,000	3	15%	6%
Totals:	20	100%	100%

The table above shows 85% of the businesses sampled have revenues less than \$1 million.

The following table is based on an analysis of 20 refinanced first residential real estate mortgage loans containing income information for the borrower. These customers are located within the bank's assessment area and were randomly selected from all refinanced first residential real estate mortgages originated since September 2001.

<b>Lending Distribution Based on Income Level of Refinanced First Residential Real Estate Borrowers September 2001 - March 2002 Loan Originations</b>			
<b>Borrower Income Level</b>	<b>Bank Lending Distribution by Number of Loans</b>	<b>Bank Lending Distribution by Dollar Value of Loans</b>	<b>Percentage of Families in each Income Category (census information)</b>
Low	5%	2%	27%
Moderate	45%	43%	25%
Middle	20%	24%	22%
Upper	30%	31%	26%
Totals	100%	100%	100%

As indicated by the above table, 50% of the number and 45% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 52% of the assessment area's population. This represents a reasonable distribution of lending to borrowers of different income levels. This conclusion is based on two factors. First, the lower percentage of dollars loaned to low- and moderate-income borrowers is indicative of the smaller loans that are typically made to customers in these income ranges. Second, approximately one-half (46%) of the low-income families in the assessment area are below the poverty level. These families would not typically qualify for real estate mortgage loans, which explains why the bank's percentage of loans to low-income families is below the demographic characteristics of the area.

## Geographic Distribution of Loans

Our analysis of the commercial and refinanced first residential real estate mortgage loans sample above also indicates the First National Bank of Crystal Falls has a reasonable geographic distribution of loans throughout the assessment area, with lending evident in all BNAs. This is illustrated in the following table:

<b>Geographic Distribution Based on Number and Dollar Amount of Loans Made in Assessment Area September 2001 - March 2002 Loan Originations</b>				
	<b>% of Number Originated in the Moderate-income BNA</b>	<b>% of Dollar Amount Originated in the Moderate-income BNA</b>	<b>% of Number Originated in the Middle-Income BNAs</b>	<b>% of Dollar Amount Originated in the Middle-Income BNAs</b>
<b>Commercial Loans</b>	10%	15%	90%	85%
<b>Percentage of Businesses in the Assessment Area (census information)</b>	55%		45%	
<b>Refinanced First Real Estate Mortgages</b>	10%	11%	90%	89%
<b>Percentage of Owner-Occupied Housing in the Assessment Area (census information)</b>	46%		54%	
<b>Total Loans</b>	10%	13%	90%	87%

As indicated by the above table, a smaller percentage of loans were made in the moderate-income BNAs than the percentage of businesses and owner-occupied housing units in that area. The reason for this discrepancy is that the two moderate-income BNAs are located on the outer edge of the bank's assessment area. Additionally, the First National Bank of Crystal Falls does not have a branch in either of these BNAs. There are other financial institutions located in these moderate-income areas that are more accessible for customers. Based on these facts, the percentage of loan customers in the moderate-income BNAs is reasonable.

## Responses to Complaints

Neither the bank nor our agency has received any CRA-related complaints since the previous evaluation.

## Fair Lending Review

An analysis of 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on analysis of this information (or absence of 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 1997.