



## **PUBLIC DISCLOSURE**

November 16, 2015

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Norway  
Charter Number 6863

501 W. US 2  
Norway, MI 49870

Office of the Comptroller of the Currency

Milwaukee Field Office  
1200 North Mayfair Road, Suite 200  
Wauwatosa, WI 53226-3282

**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.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

The major factors supporting the institution's rating include:

- The loan-to-deposit ratio (LTD) ratio is reasonable given the institution's size, financial condition, and credit needs of its assessment area (AA).
- A substantial majority of loan originations are made within the institution's AA.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different revenue (or sales) sizes.

**SCOPE OF EXAMINATION**

We evaluated the First National Bank of Norway's (Norway or institution) Community Reinvestment Act (CRA) performance under the Small Bank Lending Test. We reviewed data for the institution's primary loan products, residential real estate (home mortgage) and small business and small farm (commercial) loans, to evaluate the institution's lending performance.

Our evaluation period covered CRA activities since the prior CRA performance evaluation, April 20, 2009 through November 16, 2015. Our lending test covered loans originated or purchased between January 1, 2013 and September 30, 2015, using the small bank examination procedures. The Office of Management and Budget (OMB) revised metropolitan area and census tract (CT) geographic definitions and boundaries in February 2013. Those revisions became effective for CRA purposes on January 1, 2014, affecting the institution's AA.

Norway is not subject to the Home Mortgage Disclosure Act (HMDA); therefore, and as a result of the abovementioned revisions specifically to the percentage of families within each income tract category, we selected a random sample of home mortgage loans from the institution's lending records and performed a separate analysis on home mortgage loans for 2013 and 2014 to 2015, using the most recent demographic data. We completed an analysis on the random sample of commercial loans over the full lending test period using the most recent demographic data.

**DESCRIPTION OF INSTITUTION**

Norway is a \$95.5 million<sup>1</sup> federally chartered, national bank headquartered in the city of Norway, Dickinson County, Michigan, a middle-income CT. The institution is wholly-owned by Northern Interstate Financial, Inc., a single-bank holding company. The institution operates four other full-service branches located in Norway (supermarket), Iron Mountain, Carney, and Powers, Michigan. The institution also operates six non-

---

<sup>1</sup> Financial data is as of year-to-date September 30, 2015.

deposit-taking automated teller machines (ATMs) at the five office locations and one other non-bank location. All offices and ATMs are located within the institution's AA. The institution opened the Powers, Michigan branch on March 26, 2012 and a non-deposit-taking ATM located at the Oak Crest Golf Course (non-bank location) in Norway, Michigan in August of 2009. The institution did not close any branches or ATMs during the evaluation period.

Norway's primary business strategy is to serve its local community through the origination and servicing of residential mortgage, commercial, and consumer loan products, and to provide savings- and deposit-related banking services. Norway offers traditional, noncomplex loan and deposit products and services. Credit assistance is provided to low- and moderate-income individuals and small businesses and small farms through various government and agency programs. Home mortgages, typically long-term (15 and 30 year amortizations), and fixed rate first mortgages not retained in portfolio for investment are sold to government agencies with servicing retained.

As indicated in table 1 below, as of September 30, 2015, Norway has a total loan portfolio of \$63.0 million, representing 66 percent of total assets. This is a decline from the prior CRA performance evaluation when the loan portfolio represented 73 percent of total assets. The institution's recent commercial loan demand has remained minimal, and the home mortgage demand has remained stable. The institution's loan portfolio is diverse, with lending activities primarily in residential mortgages (51.8 percent) and commercial loans (35.1 percent).

<b>Loan Category</b>	<b>Amount (\$000's)</b>	<b>Percent of Total Loans</b>	<b>Percent of Total Assets</b>
Residential Mortgage	\$32,615	51.8%	34.2%
Nonresidential Mortgage	11,011	17.5%	11.5%
Commercial Nonmortgage	9,582	15.2%	10.0%
Farm	1,486	2.4%	1.6%
Consumer	2,615	4.1%	2.7%
All Other Loans	5,698	9.0%	6.0%
<b>Total Loans</b>	<b>\$63,007</b>	<b>100.0%</b>	<b>66.0%</b>

Competition from other financial institutions is strong in the markets Norway serves. The institution's competition includes other community banks that are federally and state chartered banks, multi-state banks, large federally chartered national banks, and credit unions. There are no legal, financial, or other impediments limiting the institution's ability to help meet the credit needs of its local community.

Norway's CRA performance was rated as "Satisfactory" at the prior evaluation, dated April 20, 2009.

## DESCRIPTION OF ASSESSMENT AREA(S)

Norway has one AA located entirely in the Upper Peninsula of Michigan and is defined as Dickinson and Menominee Counties. The AA does not lay within a metropolitan statistical area (MSA)/metropolitan division (MD). According to the 2010 U.S. Census data, the AA consists of 14 census tracts, 12 of which are middle-income areas and two are designated upper-income. We used the 2010 U.S. Census data throughout this evaluation when referencing demographic data, which is summarized below.

The total population of the AA is 50,197. The average median family income is \$51,595, and the HUD updated MSA median family income is \$54,700. The percentage of households that have income below the poverty level is 12.5 percent. Owner-occupied units comprise 63.7 percent of total housing units. The 2015 annual unemployment rate (preliminary) for Dickinson and Menominee Counties is 4.7 percent and 4.9 percent, respectively, compared to the state annual unemployment rate of 4.7 percent as of September 2015.

The 2010 Census data in table 2 below summarizes other demographic data for the AA.

<b>Demographic Data</b>	<b>2010 Census</b>
Population	50,197
Total Families	14,775
1-4 Family Units	24,474
Multi-family Units	1,643
% Owner-Occupied Units	63.7%
% Rental-Occupied Units	15.2%
% Vacant Housing Units	21.2%
HUD Estimated Median Family Income	\$54,700

Table 3, below, summarizes the percentage of families by income level based on the total number of families from the 2010 Census data (table 2 above). The percentage of families below the poverty level in the AA is 8.4 percent.

<b>Family Income Level</b>	<b># of Families</b>	<b>% of Families</b>
Low-Income	2,447	16.6
Moderate-Income	2,791	18.9
Middle-Income	3,747	25.3
Upper-Income	5,790	39.2
Total	14,775	100.0

Overall, the local and state economies are characterized as stable. Major employers in the AA include industry focus in health, engineering, lodging services, retail, and manufacturing. The AA has not gained or lost any significant employers in the previous year.

Competition in the area is strong. There are 11 other FDIC-insured financial institutions with offices in the AA. Norway is the third largest in deposits and has a market share of 11.1 percent of the total deposits as of June 30, 2015. Of the 11 institutions, only one, which also has the largest deposit market share, has its headquarters in the AA.

In assessing the institution's CRA performance, we contacted a local CRA-related community contact during our evaluation to determine the communities' profile and the performance of local financial institutions. The contact is a local government official. The contact stated that the local financial institutions are meeting the credit needs of the local community. In addition, the contact indicated that the local economy has stabilized since the national economic downturn in 2008. There have been limited community development opportunities in which local financial institutions could participate.

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

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

Norway's loan-to-deposit (LTD) ratio is reasonable given the institution's capacity to lend, the capacity of other similarly situated institutions to lend in the AA, demographic and economic factors present in the AA, and the lending opportunities available in the institution's AA.

Norway's quarterly LTD ratio average is 78.85 percent for the 26 quarters ended September 30, 2015. This ratio is higher than the average LTD ratio for other institutions that serve primarily the Dickinson and Menominee County areas. This peer group consists of one other similarly situated institution with assets totaling \$322.7 million. The average LTD ratio for that institution located in the AA over the same period is 68.59 percent. Norway is smaller in asset size; however, loan growth is negligible over the past year.

### **Lending in Assessment Area**

The institution originates a substantial majority of its loans to borrowers inside the AA. As illustrated in the table below, the institution originated 91.67 percent by number and 93.59 percent by dollar volume.

<b>Table 4 - Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgages	39	97.50%	1	2.50%	40	\$3,528	96.98%	\$110	3.02%	\$3,638
Commercial Loans	16	80.00%	4	20.00%	20	\$1,604	86.91%	\$242	13.09%	\$1,846
Totals	55	91.67%	5	8.33%	60	\$5,133	93.59%	\$352	6.41%	\$5,484

Source: Loan sample (60 bank records verified by examiners)

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

The institution's overall distribution of loans to borrowers of different income levels and to businesses of different sizes reflects reasonable penetration.

The institution's borrower distribution of home mortgage loans in 2013 in the AA reflects reasonable penetration. The following table shows that the institution exceeded the demographic data for low- and moderate-income borrowers on a combined basis. Although loans originated to low-income borrower are below the demographic data, the bank exceeds the demographic data for loans originated to moderate-income borrowers.

<b>Table 5 - Borrower Distribution of Residential Real Estate Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgages	16.79%	10.53%	19.30%	31.58%	25.17%	15.79%	38.74%	42.11%

Source: 2013 Loan sample (20 bank records verified by examiners) and Peer mortgage data; 2010 U.S. Census data.

Similarly, the institution's borrower distribution of home mortgage loans between 2014 and 2015 in the AA reflects reasonable penetration. The following table shows that the institution exceeded the demographic data for low- and moderate-income borrowers on a combined basis. Although loans originated to low-income borrowers are below the demographic data, the bank exceeds the demographic data for loans originated to moderate-income borrowers.

<b>Table 5A - Borrower Distribution of Residential Real Estate Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgages	16.56%	10.00%	18.89%	30.00%	25.36%	40.00%	39.19%	20.00%

Source: 2014-2015 Loan sample (20 bank records verified by examiners) and Peer mortgage data; 2010 U.S. Census data.

The institution’s borrower distribution of loans to businesses in the AA reflects excellent penetration. The following table shows that the institution exceeded the demographic data of loans originated to businesses with revenues (or sales) less than or equal to \$1 million. The institution originated 87.5 percent by number and 89.9 percent by dollar amount of its total commercial loans to small businesses in the AA.

<b>Table 6 - Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.02%	6.84%	19.14%	100%
% of Bank Loans in AA by #	87.50%	12.50%	0.00%	100%
% of Bank Loans in AA by \$	89.90%	10.10%	0.00%	100%

*Source: 2013-2015 Loan sample (20 bank records verified by examiners); Dunn & Bradstreet business demographic data as of June 2014; 2010 U.S. Census data.*

### **Geographic Distribution of Loans**

Since the institution’s AA does not contain low- or moderate-income CTs for our review period, a geographic distribution analysis would not provide meaningful information.

### **Responses to Complaints**

Norway did not receive any complaints regarding its CRA performance during our review period.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.