

## 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 the 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 CRA performance of The Citizens State Bank of Ontonagon, Ontonagon, Michigan, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of February 11, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

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

There are a number of factors that support the bank's satisfactory rating. First, the bank maintains a reasonable loan-to-deposit ratio. Second, it has made a significant majority of its loans within its assessment area. Third, the bank lends to borrowers of many different income levels. Finally, loans are reasonably distributed among geographies of different income levels.

*The following table indicates the performance level of The Citizens State Bank of Ontonagon, Ontonagon, Michigan, with respect to each of the five performance criteria.*

SMALL INSTITUTION ASSESSMENT CRITERIA	THE CITIZENS STATE BANK OF ONTONAGON ONTONAGON, 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 Income Levels and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

## **DESCRIPTION OF INSTITUTION**

The bank is able to meet the credit needs of the communities in its assessment area effectively. At its last CRA evaluation, the bank received a satisfactory rating. The bank's main office is located in Ontonagon. It operates a full-service branch in White Pine, Michigan, and a paying and receiving office with limited office hours in Mass City, Michigan. The bank also owns a 24-hour, cash-dispensing automated teller machine ("ATM") in the Ontonagon office.

According to the December 31, 1996, Report of Condition ("ROC"), the bank had total assets of approximately \$37.7 million. Since June 30, 1995, the bank's loans and deposits have remained relatively stable with increases of \$1.1 million and \$.1 million, respectively. The bank's assets have also been stable, showing a modest increase of \$.5 million. According to the December 31, 1996, ROC data, the bank's loan portfolio is composed of approximately 40% consumer real estate, 31% commercial, 26% consumer, 2% municipal, and 1% agricultural loans. The composition of the loan portfolio reflects the level of demand for specific credit products by residents of the assessment area.

The bank offers a variety of loan products to meet the credit needs of residents and businesses within its assessment area. It extends closed-end consumer, residential real estate, commercial, and agricultural loans. The bank refers requests for government-sponsored mortgage loan programs to another local financial institution.

## **DESCRIPTION OF CITIZENS STATE BANK OF ONTONAGON'S ASSESSMENT AREA**

The bank defines its assessment area as Ontonagon County, Michigan. Located in the western Upper Peninsula of the state, the county is made up of three block numbering areas ("BNA"): 9701, 9702, and 9703. BNA 9701 is designated moderate income, while the remaining two BNAs are designated middle income. According to 1990 census data, the population of the assessment area is 8,854. Ontonagon is the county seat and the largest community in the assessment area with a population of approximately 2,040. Mass City and White Pine are unincorporated towns; therefore, population information is not available from the census data.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area ("MSA"), the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median income. An individual with an income that is 120% or more of the statewide nonmetropolitan median income is considered an upper-income person. BNAs are classified using similar categories based on the level of the median family income in the geography.

As previously mentioned, BNA 9701 is classified as moderate income, while the remaining two BNAs are classified as middle income. According to 1990 census data, the assessment area's median family income is \$26,674 while the median household income is \$21,153. The median family and household incomes for nonmetropolitan areas in Michigan are \$27,894 and \$23,427, respectively. Of the 3,669 households in the

assessment area, approximately 28% are low income, 17% are moderate income, 18% are middle income, and 37% are upper income. Approximately 15% of the households and 10% of the families have incomes below the poverty level.

Examiners made a community contact with an individual connected with a business and labor group familiar with the economic characteristics and credit needs of the assessment area. Information obtained from this individual was used in evaluating the bank's CRA performance.

Ontonagon is the county seat for Ontonagon County. It is located on the southern shore of Lake Superior on Michigan's Upper Peninsula. Historically, the local economy has been dependent on the copper mine in White Pine; the mine was the county's largest employer. In October 1995, however, the mine laid off 1,000 workers. While the latest reported unemployment figures for 1995 indicate an unemployment rate of 10%, this number is higher if the mine layoffs are included. It is unknown at this time if the mine will be able to resume operations to any significant extent. There are a couple of roadblocks to reopening mining operations. The most serious is the environmental assessment of the mine's operating procedures that is being conducted. This assessment has been an extremely lengthy process, and it does not appear that the government agencies reviewing the applications and procedures will conclude their studies before the end of 1997. The mine is also facing some environmental opposition from nearby Native American reservations. Representatives from the mine are conducting talks with tribal representatives in an attempt to resolve their differences.

The area's year-round opportunities for tourism, in addition to timber-related industries, continue to be strong factors in the local economy. Bank management and local business owners are optimistic about the continued long-term viability of the county's economy.

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

The bank has done a satisfactory job of meeting the credit needs of its assessment area. Much of the analysis on the following pages was based on a statistical sample of 167 consumer loans and 44 consumer real estate loans originated in the six months preceding the evaluation. The criteria discussed below were reviewed in determining this rating.

### **LOAN-TO-DEPOSIT RATIO ANALYSIS**

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 60%. According to the December 31, 1996, ROC, the bank's loan-to-deposit ratio was 62%. The following chart, based on quarterly ROC data, shows the stability of the bank's loan-to-deposit ratio. The fluctuations in deposits in the first and third quarters of 1996 were caused by temporary deposits resulting from a municipal street repair project.

<b>DATE</b>	<b>NET LOANS (In thousands)</b>	<b>DEPOSITS (In thousands)</b>	<b>NET LOAN -TO- DEPOSIT RATIO</b>
December 31, 1996	\$19,849	\$31,857	62%
September 30, 1996	\$19,509	\$33,048	59%
June 30, 1996	\$19,503	\$31,865	61%
March 31, 1996	\$19,120	\$34,138	56%
December 31, 1995	\$19,933	\$31,502	63%
September 30, 1995	\$19,381	\$31,846	61%
June 30, 1995	\$18,779	\$31,703	59%

According to the September 30, 1996, Uniform Bank Performance Report, the bank's 59% loan-to-deposit ratio is below its peer group average of 68%. The bank's ratio places it in the 28th percentile compared with its peers. The following chart shows the average net loan-to-deposit ratio as of September 30, 1996, for some of the bank's local competitors.

<b>BANK</b>	<b>TOTAL ASSETS September 30, 1996 (In thousands)</b>	<b>QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO</b>
Subject Bank	\$38,752	60%
Competitor A	\$27,581	74%
Competitor B	\$32,210	72%
Competitor C	\$72,252	66%
Competitor D	\$42,945	84%

As shown above, the bank's quarterly average net loan-to-deposit ratio is lower than the competition. Bank management indicated that the level of competition for all loan types is extremely high for a county of just under 9,000 residents. In addition, bank management believes that many of its customers are financing their purchases with credit cards because of the easy availability of credit. It should be noted, however, that the bank's loan volume has remained stable even with the recent economic downturns in the county. In fact, the bank has been proactive in managing its loan portfolio and working with its customers who were previously employed at the mine. In addition, the bank has not experienced a measurable increase in delinquent loans since October 1995. The bank also makes many small-dollar consumer loans, which has an impact on the loan-to-deposit ratio. Information received from a member of the community contacted during the evaluation did not identify any unmet credit needs. Accordingly, based on the level of lending by the bank, information from the community contact, and comparison to the bank's competitors, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

#### COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of the statistical sample of the loans originated by the bank in the six months preceding the evaluation reveals that a significant majority of the loans were made inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and loan amount in each major loan category.

<b>PERCENTAGE OF LOANS IN THE ASSESSMENT AREA</b>		
<b>Loan Type</b>	<b>Total Number of Loans</b>	<b>Total Amount of Loans</b>
Consumer	95	91
Residential Real Estate	100	100

As the table indicates, all of the loans in the residential real estate sample were made within the bank's assessment area. Based on the high concentration of lending within the assessment area, the bank exceeds the standards for satisfactory performance in this category.

**LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES**

The bank's level of lending to individuals of different income levels exceeds the standards for satisfactory performance. The following table shows the percentage of consumer loans and residential real estate loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*</b>				
<b>Loan Type</b>	<b>Low-Income Borrowers</b>	<b>Moderate-Income Borrowers</b>	<b>Middle-Income Borrowers</b>	<b>Upper-Income Borrowers</b>
<u>Consumer</u>				
Total Number of Loans	33%	36%	20%	11%
Total Amount of Loans	12%	45%	24%	19%
<u>Residential Real Estate</u>				
Total Number of Loans	24%	19%	19%	38%
Total Amount of Loans	18%	18%	21%	43%

\*Income level based on Michigan's 1996 non-MSA median family income of \$33,800.

The data in the table indicate that the bank originated 69% of the consumer loans in the sample to low- and moderate-income borrowers. As previously mentioned in the Description of Assessment Area section, approximately 45% of the households in the bank's assessment area are classified as low- and moderate-income according to 1990 census figures. Given the current economic conditions in the county, it is possible that the number of households in these categories was higher during the time period covered by the loan sample. In addition, the bank makes a number of small-dollar consumer loans. Specifically, as shown in the table, while one-third of the consumer loans in the sample were made to low-income borrowers, the loans represent just 12% of the amounts loaned in this category. The bank's level of lending significantly exceeds the percentage of low- and moderate-income individuals living in the assessment area.

The bank's level of residential real estate lending to low- and moderate-income borrowers appears to be reasonable. As the data in the table indicate, the bank made 43% of its residential real estate loans to low- and moderate-income borrowers. One factor that contributes to the bank's even dispersion of loans among the various income levels is the low cost of housing in the area. The median home value for the county is \$28,083. The low housing values enable more individuals to have the opportunity to purchase homes. The bank does not offer government-guaranteed housing programs because there has not been sufficient demand from its customers. The bank refers individuals who are interested in obtaining government loans to another local financial institution. Overall, the bank's high percentage of consumer and residential real estate lending to low- and moderate-income borrowers demonstrates a strong commitment to meeting the credit needs of all segments of the community and exceeds the standards for satisfactory performance.

### GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout its assessment area is reasonable. As previously discussed, the bank's assessment area includes one moderate-income and two middle-income BNAs. Approximately 26% of the population resides in the assessment area's moderate-income BNA. The following chart illustrates the distribution of the bank's loans by BNA income level.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL</b>		
<b>Loan Type</b>	<b>Moderate-Income BNA</b>	<b>Middle-Income BNA</b>
<u>Consumer</u>		
Total Number of Loans	13%	87%
Total Amount of Loans	10%	90%
<u>Residential Real Estate</u>		
Total Number of Loans	14%	86%
Total Amount of Loans	13%	87%

Of the 945 households in the moderate-income BNA, 307, or 33%, were classified low income according to 1990 census data. In addition, 160, or 17%, of these households had incomes below the poverty level. The number of low-income households helps to explain the low level of lending in the moderate-income BNA. Typically, low-income households do not use credit from financial institutions to finance consumer purchases and their level of borrowing is low because it is often difficult to obtain consumer credit. The low-income households are also more likely to use government-guaranteed loan programs to finance real estate purchases. These programs have less stringent qualifying guidelines. The bank refers many low- and moderate-income borrowers to another local financial institution for government loan programs. Based on these factors, the bank's level of lending to geographies of different income levels appears reasonable and meets the standards for satisfactory performance.

### GENERAL

The evaluation did not reveal any violations of the substantive or technical provisions of the fair lending and fair housing laws and regulations. In addition, the bank has not received any CRA-related complaints since the previous evaluation.

# **PUBLIC DISCLOSURE**

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February 11, 1997  
Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

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The Citizens State Bank of Ontonagon  
Name of Depository Institution

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092632500000  
Identification Number of Institution

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Ontonagon, Michigan  
Address of Institution

Federal Reserve Bank of Minneapolis  
250 Marquette Avenue  
Minneapolis, Minnesota 55401-2171

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.