



## **PUBLIC DISCLOSURE**

January 05, 2017

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

First National Bank in Howell  
Charter Number 14144

101 East Grand River Howell, MI 48843

Office of the Comptroller of the Currency

200 Public Square Suite 1610  
Cleveland, OH 44114-2301

**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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting this rating are:

- The bank's average loan-to-deposit ratio is reasonable given the bank's size and financial condition, and the credit needs of the community.
- The bank originated or purchased a substantial majority of business loans within its assessment area and exceeds the standards for satisfactory performance.
- The bank's geographic distribution of business loans reflects excellent dispersion throughout the assessment area.
- The bank's distribution of business loans reflects reasonable penetration of businesses of different sizes.
- The bank's community development (CD) performance demonstrates adequate responsiveness to CD needs in its assessment area (AA) based upon its record of qualified investments and services and its capacity to participate.

## **Scope of Examination**

We evaluated the First National Bank in Howell's (bank or FNBH) performance within its delineated AA using the intermediate-small bank Community Reinvestment Act (CRA) full-scope procedures. This Performance Evaluation covers the period of November 27, 2012 to January 5, 2017. The procedures used to assess the bank's performance rating focused on its lending and community development (CD) activities. The evaluation period for assessing the bank's lending activities covered January 1, 2014 through December 31, 2015. However, the evaluation period for assessing its CD activities covered November 27, 2012 through January 5, 2017.

The bank's primary lending focus is lending to businesses, which includes commercial real estate and commercial and industrial lending. We determined the bank's primary lending focus based on its loan originations as well as discussions with senior management. We also determined that home purchase, home refinance, home improvement, consumer and farm lending are not a lending focus of the bank. Therefore, we did not consider these lending programs as part of this evaluation as the analysis would not be meaningful.

To evaluate the bank's performance, we relied on internal bank reports to identify small loans to businesses. To ensure the accuracy of reports detailing small loans to businesses, a data integrity review was performed prior to our evaluation date. The information as presented was found to be accurate. We also utilized other supporting

information while evaluating the bank's CRA performance. The information included 2010 Census Data, 2015 business demographic data, internal bank records, deposit market share data and information from governmental websites regarding the characteristics and economy of the bank's AA. Furthermore, we used information from two community contacts which were conducted during the evaluation to help assess the needs of the community, and the opportunities for financial institutions to lend and provide services to the area.

## **Description of Institution**

The bank is a full-service community bank headquartered in Howell, Michigan. It is a wholly-owned subsidiary of FNBH Bancorp, Inc., a one-bank holding company, which is also located in Howell, Michigan. The bank operates eight full-service branches within the community it serves, all of which are located in Livingston County. The bank has branches in the cities or townships of Howell, Brighton, Fowlerville, Hartland, and Whitmore Lake. FNBH maintains a branch location in three of the four moderate-income census tracts (CT) in the AA, and each branch has access to automated teller machines (ATMs). Additionally, seven of the eight branches offer drive through services. The bank does not have any stand-alone ATMs or remote deposit taking facilities. The bank did not open or close any branch offices during the evaluation period.

As of September 30, 2016, FNBH had \$383.1 million in total assets, \$38.0 million in Tier One Capital, and its loan portfolio totaled \$200.1 million, or 52.2% of total assets. The bank offers traditional banking products and services. Business loans are the primary loan focus and the bank actively seeks to serve the credit needs of the business community. The bank also offers some consumer and residential loan products as well as provides a wide range of deposit products and services including checking, savings, money market accounts, certificates of deposit, overdraft protection and online banking. Although the bank does not currently offer full mortgage lending services, it does offer home equity loans and also purchases mortgages for its portfolio. The bank refers its mortgage loan applications to a non-affiliated mortgage company.

Business related deposits products and services include checking and money market accounts, interest only lawyer's trust accounts (IOLTAs), sweep accounts, lockbox services and cash management services. The bank also offers a non-profit organization checking account product, which includes unlimited check clearing and deposits, no service fees and free online banking and e-Bill pay services.

Table 1 presents a categorization of the loan portfolio composition as well as support for determining the bank's primary lending focus. The bank also offers loans under the Small Business Administration (SBA) to assist in meeting the needs of small businesses.

<b>Table 1 – FNB Howell’s Loan Portfolio as of September 30, 2016</b>		
Type of Loan	Dollars of Loans (\$000s)	Percentage of the Portfolio
Non-Farm Non-Residential Loans	112,650	56.31
Commercial and Industrial Loans	14,803	7.40
Residential Mortgage Loans (First Liens)	30,199	15.10
Residential Mortgage Loans (Junior Liens)	3,123	1.56
Multi-Family Loans	5,775	2.89
Construction and Development Loans	6,385	3.19
Home Equity Loans and Credit Lines	12,304	6.15
Consumer Loans	11,461	5.73
Lease Financing receivables	2,568	1.28
Agricultural Loans	417	0.21
Other Loans	553	0.28
Less: Unearned Income	(190)	(0.10)
<b>Total Loans Outstanding</b>	<b>200,048</b>	<b>100.00</b>

*Source: First National Bank in Howell September 30, 2016 Report of Condition.*

The bank operated under a Consent Order for much of the evaluation period that included capital requirements and experienced financial constraints, which impacted its ability to reasonably meet the credit needs of the AA. The Consent Order was removed effective November 17, 2015. The bank received a “Satisfactory” rating as of the last CRA evaluation dated November 26, 2012.

## **Description of Assessment Area(s)**

First National Bank in Howell’s Assessment Area meets regulatory requirements and does not arbitrarily exclude any low or moderate-income geographies. The AA is comprised of Livingston county, which is situated adjacent to Ingham county (Lansing), Washtenaw county (Ann Arbor) and Oakland county in the central part of Michigan’s Lower Peninsula and is included in the Detroit-Warren-Dearborn, MI Metropolitan Statistical Area. The county’s proximity to the State Capital, the University of Michigan and Michigan State University as well as Oakland County, one of the state’s wealthiest county’s, has provided a favorable environment for growth.

The AA has experienced population growth greater than the average growth rate of the State of Michigan. Since 2010, the U.S. Census Bureau estimates the overall population of the AA has increased by 3.5 percent compared to the state population growth of 0.4 percent. Based on 2010 U.S. Census data, the AA comprises 61 census tracts, of which, one is designated as a low-income tract, four as moderate-income tracts, thirty-two as middle-income tracts, and twenty-four as upper-income tracts. In addition, the AA contains no designated distressed or underserved middle-income areas. A majority of businesses in the AA are small as measured by the number of employees and gross revenues. According to the 2015 Dun and Bradstreet data, 83.86 percent of businesses located in the AA have less than \$1 million in gross annual revenues, and 76.2 percent of businesses have fewer than five employees. Only 1.8 percent of businesses are headquartered in the institution’s AA, and 91.7 percent operate from a single location. The three primary business sectors within the AA

include services, retail trade and construction. Livingston County's location offers its residents convenient access to the major metropolitan centers of Detroit, Lansing, Ann Arbor, and Flint. People from Livingston County commute to all four of these cities, as a large portion of the population works outside the county. Major employers inside the AA include Citizens Insurance Company, Trinity Health, and the school districts of Howell, Brighton and Hartland.

The AA has a competitive banking environment, with a mix of large and community banks as well as credit unions serving the area. According to the June 30, 2016, FDIC Deposit Market Share Report, there are 16 financial institutions with 50 offices serving the assessment area, which does not include credit unions or other financial organizations. This data indicates the bank is ranked fourth in terms of deposit market share, holding approximately 11.6 percent of the total deposits. Five banks dominate the small business lending market share in the AA, accounting for over 54 percent of the lending dollars, with one bank responsible for 30 percent of the number of small business loans made in the AA. FNBH does not report its small business loan information.

Local and statewide unemployment levels have gradually decreased during the evaluation period. The statewide unadjusted unemployment average was 9.1 percent in 2012 and 5.4 percent in 2015. The average unadjusted unemployment rates for the AA of Livingston County also decreased during this period. Table 2 provides a comparison of non-seasonally adjusted annual unemployment rates for the AA, as well as national and state rates as of December 31, 2015. Since December 31, 2012 the unemployment rate for Livingston County decreased from 7.5 to 4.1 percent. This rate is below the State of Michigan's average unemployment rate due largely to industry diversification in the AA and its proximity to several major metropolitan areas.

<b>Table 2 – Unemployment Information December 31, 2015</b>	
	Unemployment Rate (not seasonally adjusted)
National Rate	5.3%
State of Michigan	5.4%
Livingston County	4.1%

*Source: December 31, 2015 U.S. Bureau of Labor Statistics.*

According to 2015 Business Geodemographic Data, the AA has 11,819 non-farm businesses. The total number of non-farm businesses with gross revenues of \$1 million or less is 9,878, representing 83.58 percent of all non-farm businesses.

Based on 2010 U.S. Census data, the AA contains approximately 1.8 percent of the state's population, with 180,967 residents in 51,113 families and 67,265 households. The number and percentage of families in each income level within the AA are identified in Table 3. In aggregate, 15,660 families in the AA are designated low- or moderate-income. The 2015 FFIEC Updated Median Family Income for the AA is \$77,300.

<b>Table 3– AA Income Levels December 31, 2015</b>		
	Number of Families	Percentage of Families
Low Income Families	7,655	14.98
Moderate Income Families	8,005	15.66
Middle Income Families	12,328	24.12
Upper Income Families	23,125	45.24
Total Families	51,113	100.00

*Source: 2010 U.S. Census*

During our assessment of the bank's performance, we considered information from members of the community in order to obtain an understanding of the AA's needs and credit opportunities. We interviewed representatives from affordable housing and financial education organizations. They indicated the need for developing financial services to assist low- and moderate-income individuals and small businesses. Primary needs include financing for small businesses, investments in incentive pools for business development, construction financing, lines of credit and funding for homeownership counseling and budgeting programs.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The bank's performance in meeting the credit needs of its AA based on the results of the lending test is satisfactory.

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

FNBH's loan-to-deposit ratio is reasonable given the bank's size and financial condition, and the credit needs of the community. The bank's quarterly loan-to-deposit (LTD) ratio, averaged for the previous 16 quarters from December 31, 2012 through September 30, 2016, is 54.33 percent. Its maximum net LTD ratio during the evaluation period reached 59.76 percent as of March 31, 2016, with a minimum of 48.57 percent as of September 30, 2015. This lower net LTD ratio is due to management's plan to shrink the bank and control lending to improve its financial condition while it was working under the Consent Order. We also compared the bank's net LTD ratio to the net LTD ratio of peer banks during the same evaluation period. Our review found one similarly situated institution that was under a Consent Order and experiencing similar financial difficulties in an adjacent AA. The similarly situated institution had a higher net LTD ratio at 75.58 percent. We found no other similarly situated institutions within the bank's AA to use as a comparison.

## Lending in Assessment Area

FNBH's lending in the AA exceeds the standard for satisfactory performance. The bank originated a substantial majority of its small loans to businesses within its AA. As shown in Table 4, the bank originated or purchased 85.85 percent of the number and 80.95 percent of the dollar amount of small loans to businesses in the AA.

Type of Loan	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business Loans 2014	185	84.48	34	15.52	219	31,263	79.41	8,105	20.59	39,368
Small Business Loans 2015	185	87.26	27	12.74	212	34,682	82.39	7,412	17.61	42,094
Total	370	85.85	61	14.15	431	65,945	80.95	15,517	19.05	81,462

Source: FNBH Small Business Loan reports

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

FNBH's distribution of small loans to business loans reflects reasonable penetration of businesses of different sizes. In determining the level of penetration among businesses of different sizes, we compared the percentage of the bank's small loans to businesses originated or purchased in 2014 and 2015 to the percentage of businesses located in the AA. As evidenced in Table 5, the bank's percentage of small loans to businesses, both by number and dollar amount, are below the percentage of businesses in the AA that report revenues of \$1 million or less. However, as shown in Table 5, the bank exceeds peer small business lending in 2014 and 2015 in the AA. Additionally, factors such as legal and financial impediments and the level of competition impacted the bank's ability to lend during the evaluation period.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total	Peer Small Business Lending in AA to Businesses with ≤\$1,000,000 in Revenue
% of AA Businesses	83.86	4.89	11.25	100.00	
% of Bank Loans in AA by #	55.95	40.81	3.24	100.00	51.79
% of Bank Loans in AA by \$	51.88	46.98	1.14	100.00	31.52

Source: FNBH Small Business Loan reports; 2015 Business Demographic Data; 2014 and 2015 Peer Small Business Lending.

## Geographic Distribution of Loans

FNBH's geographic distribution of small loans to businesses reflects excellent dispersion throughout the AA. As shown in Table 6, FNBH's lending in low- and

moderate-income CTs exceed the percentage of businesses located in those tracts. This represents excellent performance especially since FNBH's opportunity to lend to businesses in any CT was limited due to its financial and legal impediments.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	2.44	3.13	9.45	30.21	51.81	47.39	36.30	19.27

Source: FNBH Small Business Loan reports; 2015 Business Demographic Data.

### Responses to Complaints

FNBH did not receive any complaints during the evaluation period that are related to its performance in meeting the credit needs of the AA.

### COMMUNITY DEVELOPMENT TEST

The bank's performance under the CD test reflects satisfactory responsiveness in meeting the CD needs of the AA. CD performance demonstrates an adequate responsiveness to the CD needs of the bank's AA, considering its capacity to participate in CD lending, investments, and services.

### Number and Amount of Community Development Loans

The bank's CD lending had a neutral impact on the lending performance within the AA. During the evaluation period, FNBH did not originate any CD loans, which is a result of the bank's financial constraints, the effect of operating under a Consent Order, limited opportunities to originate CD loans and the level of competition from larger institutions for CD loans within the AA.

### Number and Amount of Qualified Investments

The bank's CD investments represent an adequate responsiveness to the CD investment needs within the AA. During the evaluation period, the bank made a total of \$1,184,553 in qualified investments, including an investment in a CRA loan pool and several donations to CD organizations providing a variety of services, which benefited low- and moderate-income individuals and families (LMIs) within the AA. The following are examples of some qualifying investments made by the bank during the review period:

- \$1,143,646 GNMA CRA loan pool purchase of seven mortgage loans to LMI borrowers.
- \$10,650 donated to a non-profit organization, which provides basic dental care to low-income adults in Livingston County.



- \$7,460 donated to a non-profit organization that provides educational and economic resources to meet the basic needs of those in poverty.

### **Extent to Which the Bank Provides Community Development Services**

The bank's CD services performance over the evaluation period reflects an adequate responsiveness to community CD service needs. During the evaluation period, employees participated in several qualified service activities, such as serving on the Boards or handling treasurer functions of non-profit organizations. Employees participating on the Board or serving in other financial capacities provided financial guidance to the non-profit organizations. In addition, employees participated in numerous non-qualifying fundraising and other volunteer service activities that benefited low- and moderate-income individuals and non-profit organizations serving the AA.

The bank's branches are well distributed throughout AA and offer excellent accessibility to financial services for low- and moderate-income individuals and small businesses. FNBH maintains full-service branch locations and ATMs in three of the four moderate-income census tracts in the AA. Services offered and hours of operation are comparable among locations regardless of the income level of the geography. To further support consumer access to financial services, the bank also offers electronic and telephone banking services. In addition, it offers deposit products and services to organizations that assist low- and moderate-income individuals. Deposit product and services include a free checking account specific to non-profit organizations. The bank currently has 461 non-profit accounts totaling \$4.9 million. The bank also offers IOLTAs, which are used to assist in providing legal help to low- and moderate-income individuals. As of the date of the CRA evaluation, the bank had 28 IOLTAs, totaling \$662,105 in deposits. In addition, FNBH has established a School Banking Kids Savings program to help young people learn to save at an early age.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's or federal savings association's CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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