



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**November 08, 2010**

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

Huron National Bank  
Charter Number 16857

200 East Erie St.  
Rogers City, MI 49779

Office of the Comptroller of the Currency

Northern Ohio Field Office  
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 Outstanding.**

The major factors supporting this rating are:

- Huron National Bank's (Huron NB) loan-to-deposit ratio is more than reasonable and demonstrates strong lending performance in the community it serves.
- A substantial majority of the bank's loans were made within the assessment area (AA).
- The distribution of loans reflects excellent penetration among businesses of different sizes and borrowers of different incomes.
- Huron NB's geographic distribution of loans reflects a reasonable dispersion of loans throughout the AA.
- The bank was active in activities that had community development type characteristics, which reflected excellent responsiveness to community needs.

## **SCOPE OF EXAMINATION**

This Performance Evaluation (PE) covers the period from April 5, 2004 to November 8, 2010. During our review, we used small bank Community Reinvestment Act (CRA) procedures. We also gave consideration to loans and investments that had community development type characteristics. Since Huron NB is located in a non-MSA area, we randomly sampled 25 loans each from the bank's two largest lending portfolios, which included residential mortgage and business loans. In addition, we used 2000 U.S. Census Data, 2010 Business Demographic data, internal bank reports, OCC CRA data, and other information from governmental websites for our assessment. We also contacted three community members to better assess community needs and the performance of financial institutions in the AA.

## **DESCRIPTION OF INSTITUTION**

Huron NB is a full-service community bank headquartered in Rogers City, Michigan. Huron NB is a wholly owned subsidiary of Huron National Bancorp, a one-bank holding company. Huron NB has one office and one full-service automatic teller machine, both located in Rogers City.

As of September 30, 2010, Huron NB had total assets of \$54.6 million and Tier One capital of \$7.0 million. The bank's loan portfolio totaled \$37.0 million, or 67.9% of total assets. The bank offers a wide range of deposit and loan products. Loan products include residential mortgage loans, a variety of business loans, construction loans, agriculture loans, and consumer loans. The primary loan products are residential mortgage loans which represent 54.0% of the loan portfolio, and commercial loans which represent 39.9%. A loan sample from the years 2008 and 2009, and year-to-date August 2010, to used to assess the bank's CRA performance.

Table 1 below provides further segmentation of the loan portfolio.

<b>Table 1 – Loan Portfolio</b>		
<b>Loan Type</b>	<b>\$ Volume (000s)</b>	<b>% of Portfolio</b>
Residential Mortgage Loans	19,996	54.0
Business/Commercial Loans	14,761	39.9
Consumer Loans	2,121	5.7
Other Loans	157	0.4
<b>Total</b>	<b>37,035</b>	<b>100.0</b>

*Source: Bank's internal report as of September 30, 2010. Commercial loans above include agriculture related loans.*

As of the date of this evaluation, Huron NB does not have any financial, legal, or other impediments restricting its capacity to serve the community. Huron NB was rated “Satisfactory” during the last CRA evaluation conducted April 5, 2004.

## **DESCRIPTION OF ASSESSMENT AREA**

Huron NB has one AA which consists of the county of Presque Isle, Michigan. The bank has one office which is located in Rogers City, the largest community within Presque Isle County and also the county seat. Based on the 2000 census there are six census tracts in the AA, including five designated as middle-income and one designated as moderate-income. The five middle-income tracts are designated as distressed middle-income nonmetropolitan geographies by the federal regulatory agencies. The AA consists of contiguous geographies, and none are arbitrarily excluded.

The AA consists primarily of small towns and rural communities. In addition, there are large parcels of land in the AA that are state owned and uninhabited, or the land serves as state parks. The AA is landlocked to the north by Lake Huron. Presque Isle County's population was 14,411 according to 2000 U.S. Census data. The three largest cities in Presque Isle County include Rogers City with a population of 3,322, Presque Isle Township with 1,691, and Allis Township with 1,035. Table 2 below provides additional demographic information.

The County of Presque Isle has long experienced high unemployment. The unadjusted unemployment rate for August 31, 2010 was 15.0%, which is higher than the State of Michigan unemployment rate of 12.9% and significantly higher than the national unemployment rate. Community leaders are actively trying to attract new businesses to the area, but have had little success to date. The AA is dependent on a mixture of tourism, manufacturing/industrial employment, and retirees who come to live in the area. Lake Huron provides summer activities while the rural area provides hunting activity during the fall and snowmobiling in the winter. Major employers in the county include: the Calcite mining facility, which employs approximately 150 people; the Stoneport mining facility, which employs approximately 150 people; Cadillac Products, which employs 137 people; medical facilities, which employ 194 people; and Rogers City Schools, which employs 150 people.

Huron NB has the largest deposit market share in the county with 36% as of June 30, 2010, followed by Citizens National Bank of Cheboygan with 30%, and Independent Bank with 25%. Huron NB is an active lender in the community. Based on mortgage activity for the four month period from May 2010 to August 2010, Huron NB ranked first or second for three of the four months. Calcite Credit Union was the next most active lender, and ranked first or second twice during this same time period. Presque Isle is primarily served by two large banks, two community banks, two credit unions, and a number of mortgage brokers.

Through community contacts, we determined that the primary need in the AA is attracting businesses to the area to address the high unemployment rate and improve local economic conditions. While home prices are affordable, there is also a need to provide housing-related loans directed at low- and moderate-income people and first time homebuyers.

Table 2 - Demographic Information for Assessment Area (Presque Isle County)					
Demographic Characteristics	#	Low Income (%)	Moderate Income (%)	Middle Income (%)	Upper Income (%)
Geographies (Census Tracts)	6	0.00	16.67	83.33	0.00
Population by Geography	14,411	0.00	18.72	81.28	0.00
Owner-Occupied Housing by Geography	9,910	0.00	16.45	83.55	0.00
Businesses by Geography	1,015	0.00	21.58	78.42	0.00
Farms by Geography	64	0.00	14.06	85.94	0.00
Family Distribution by Income Level	4,231	21.34	24.23	25.76	28.67
Median Family Income HUD Adjusted = \$37,519		Median Housing Value = \$84,157			
Median Family Income for 2009 Households Below the Poverty Level = \$52,700 = 11%		Unemployment Rate: (August 2010 unadjusted) = 12.9% = 15.0%			
		State of Michigan Presque Isle County			

Source: 2000 U.S. Census; 2010 Business Demographic Data

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

Huron NB’s loan-to-deposit ratio is more than reasonable, and demonstrates strong lending performance in the community the bank serves. The bank is active in meeting the credit needs of the AA, especially in the areas of commercial/business, residential, and consumer lending.

Huron NB’s average quarterly loan-to-deposit ratio for the period from March 31, 2004 to June 30, 2010 was 85.3%. This compared favorably to the peer group average for the same time period of 70.6%. The peer group represents nine banks in northern Michigan, each having total

assets under \$100 million.

### Lending in Assessment Area

A substantial majority of bank's loans are in the AA. The loan sample included loans from the bank's two main loan products, which include business loans and residential real estate loans secured by a primary residence. The loan sample included loans from 2008, 2009, and year-to-date August 31, 2010. Table 3 below reflects that 98.0% of the number of loans and 98.9% of the dollar amount of loans were made in the bank's AA.

Table 3 - Lending in Presque Isle County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	25	100.0	0	0.0	25	2,103,438	100.0	0	0.0	2,103,438
Business Loans	24	96.0	1	4.0	25	1,288,404	97.1	38,630	2.9	1,327,034
Totals	49	98.0	1	2.0	50	3,391,842	98.9	38,630	1.1	3,430,472

*Source: Random sample of loans from the bank's single family mortgage and commercial /business loan portfolios from January 1, 2008 through August 31, 2010.*

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

The distribution of loans reflects excellent penetration among businesses of different sizes and borrowers of different incomes. In addition, Huron NB was an active lender in community development activities over the evaluation period, which further reflects bank management's commitment to lend to small businesses and low-and moderate-income borrowers (see **Community Development Activity** section of this PE).

#### *Residential Real Estate Loans*

The distribution of residential real estate loans reflects excellent penetration among borrowers of different income levels. Huron NB has excellent lending distribution to moderate-income borrowers with 32.0% of the loans sampled, which compares favorably to the 24.2% of families in the AA identified as moderate-income. Although the 16% of loans to low-income borrowers is below the demographic information for low-income families, it still represents good performance (see Table 4) considering that 11% of area households have income below the poverty level. It is difficult for this segment of the population to afford to purchase or maintain a home, which impacts the opportunity to lend to the low-income population.

<b>Table 4 – Borrower Distribution of Residential Real Estate Loans in Presque Isle County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Real Estate Loans	21.3	16.0	24.2	32.0	25.8	32.0	28.7	20.0

Source: Random loan sample of 25 loans from year 2008 through August 2010; 2000 U.S. Census data.

*Business Loans*

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. The loan sample disclosed 91.7% of the loans were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This compares favorably to demographic data that shows 82.5% of the businesses located in the AA are small businesses (see Table 5).

<b>Table 5 - Borrower Distribution of Loans to Businesses in Presque Isle County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	82.5%	2.5%	15.0%	100%
% of Bank Loans in AA by #	91.7%	8.3%	0.0%	100%
% of Bank Loans in AA by \$	94.4%	5.6%	0.0%	100%

Source: Random loan sample of 24 loans; 2010 Business Demographic Data.

**Geographic Distribution of Loans**

Huron NB’s geographic distribution of loans reflects a reasonable dispersion of loans throughout the AA. As of the 2000 U.S. Census, the AA consists of six geographies, one of which is designated a moderate-income tract and five are designated middle-income tracts. Lending opportunities in the moderate-income tract are impacted by competition from other banking institutions, and the level of private and state owned large parcels of land within the AA.

*Residential Real Estate Loans*

The bank’s dispersion of residential real estate loans to geographies of different income levels is reasonable given lending opportunities and the bank’s performance context (see Table 6). Bank management provided additional support that residential real estate loans had been made in all census tracts within the AA during this evaluation period, including additional loans made in the moderate-income tract.

<b>Table 6 - Geographic Distribution of Residential Real Estate Loans in Presque Isle County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential Real Estate Loans	0.0	0.0	16.5	8.0	83.5	92.0	0.0	0.0

Source: Random loan sample of 25 loans; 2000 U.S. Census data.

*Business Loans*

The bank’s geographic distribution of business loans reflects a reasonable dispersion throughout the AA, given the lending opportunities and the bank’s performance context (see Table 6A). Bank management provided additional support that business loans were made in all census tracts within the AA during this evaluation period, including additional loans made in the moderate-income tract. This additional information showed that the bank is an active lender in the moderate-income census tract.

<b>Table 6A - Geographic Distribution of Loans to Businesses in Presque Isle County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Business Loans	0.0	0.0	21.6	4.2	78.4	95.8	0.0	0.0

Source: Random loan sample of 24 business loans; 2010 Business Geodemographic data.

**Community Development Activities**

Huron NB demonstrated excellent responsiveness in trying to meet community needs through various community development activities. In total, the bank provided \$1.2 million of funds to support activities that have community development characteristics. The bank is active in the Presque Isle County Economic Development loan program, which assists in providing loans to startup companies, attracting new business to the area, and retaining existing businesses. The bank provided six loans totaling \$189,885 through this program for startup businesses during the evaluation period. This was considered a significant contribution to the community, given the need for new businesses in the AA to help address the high unemployment. Three of the loans were made in the moderate-income census tract. These companies would not have qualified for loans under traditional bank underwriting standards. The bank also made a loan for \$426,680 to a business in the Rogers City Industrial Renaissance Zone. The State of Michigan created tax-free Renaissance Zones to stimulate economic development in areas of the State which have not experienced economic growth comparable with to State as a whole. This was done under the

Michigan Economic Development Corporation. The bank's senior loan officer is an active member of various economic/community development organizations to which the bank has granted loans or made loans under their programs. The senior loan officer is also a director of the following organizations: Presque Isle County Economic Development (EDC), Community Development Corporation (CDC), Loan Committee for CDC/EDC, and the Rogers City Community Development Authority (CDA).

The bank purchased two bonds to finance downtown Rogers City business district improvements. In total, \$370,000 worth of bonds were purchased during the evaluation period. This was done under the Downtown Development Authority Act, which was created in part to correct and prevent deterioration within business districts, to promote economic growth and revitalization, and to encourage commercial revitalization and historic preservation. These improvements were made in a census tract that is designated as a distressed nonmetropolitan geography.

Huron NB financed \$62,610 for the construction of a home by a local affordable housing organization, and renewed the loan annually for five years during this evaluation period. This home was built to provide affordable housing to a low- to moderate-income family, and is located in a moderate-income census tract. In addition, the bank renewed a \$200,000 note to a community development organization during this evaluation period, to provide financing for the purchase of a piece of land in Rogers City Renaissance Zone. The purpose of this project is to provide affordable housing.

### **Responses to Complaints**

There have been no consumer complaints relating to the bank's CRA performance during this evaluation period.

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

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