

PUBLIC DISCLOSURE

January 29, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Central Savings Bank
511 Bingham Avenue
P.O. Box 339
Sault Sainte Marie, Michigan 49783
RSSD 382050

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291

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 the 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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Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

The Community Reinvestment Act (CRA) performance of Central Savings Bank, Sault Sainte Marie, Michigan, shows reasonable responsiveness to the credit needs of its Assessment Area (AA) and excellent responsiveness to community development needs of its AA. The CRA evaluation uses the Intermediate Small Bank (ISB) Examination Procedures, which includes a Lending Test and a Community Development Test.

The bank's Lending Test rating is Satisfactory based on the following:

- Overall, the bank's lending to borrowers of different income levels and to businesses of different sizes is excellent.
- Overall, the geographic distribution of loans reflects a reasonable distribution and dispersion throughout the AA.
- The bank's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the AA.
- The bank originated a majority of its loans throughout the AA.

The Community Development Test rating is Outstanding, based on the following criteria:

- Overall, the bank's performance demonstrates excellent responsiveness to the community development needs of its AA. The bank's level of community development loans, services, and qualified investments, including donations, is excellent.

The bank received an Outstanding rating at the previous evaluation dated March 5, 2018. At that time, examiners evaluated the bank's CRA performance using the Small Bank Examination Procedures.

SCOPE OF EVALUATION

The evaluation of the bank's CRA performance is based in part on information provided by bank management and community contacts. Examiners analyzed information from these sources, as well as economic and demographic characteristics, competitive factors, and the size and financial condition of the bank, to understand and evaluate the bank's performance. The CRA evaluation covers the period from the previous CRA evaluation to December 31, 2023.

The bank's evaluation was based on the lending and community development activity in the bank's only AA, the Sault Sainte Marie AA. This AA consists of Chippewa and Mackinac counties and has not changed since the previous evaluation. These counties are in the eastern portion of the Upper Peninsula of Michigan.

Throughout this evaluation, examiners used demographic characteristics in evaluating the bank's record of lending in the AA. Sources for demographic information are primarily the 2023 Federal Financial Institutions Examination Council (FFIEC) adjusted census data and the 2023 Dun & Bradstreet data. AA demographics are useful in analyzing the bank's lending because they provide a means of estimating lending opportunities. Examiners used self-reported data collected and published by Dun & Bradstreet regarding the revenue size and location of businesses to evaluate the bank's small business lending. The demographic data does not define an expected level of lending in a particular area or to a particular group of borrowers.

Examiners weighted the bank’s performance as follows to derive the overall rating:

- Examiners assigned more weight to the bank’s Community Development Test than to the Lending Test. The bank engaged in an excellent level of community development activity and shows excellent responsiveness to community development needs.
- For the Lending Test, examiners placed the most weight on the bank’s lending to businesses of different sizes and borrowers of different income levels and on the geographic distribution of loans.
- By product type, examiners placed the most weight on consumer loans and residential real estate loans, followed by small business loans.

For community contacts, examiners interviewed people familiar with the economic and demographic characteristics, including community development opportunities, in the bank’s AA. The evaluation includes specific information obtained from these community contacts. The contacts did not identify any unmet credit needs in the AA.

Lending Test Scope

The scope of the Lending Test covers the bank’s major product lines, consisting of commercial, closed-end consumer, and residential real estate loans. The following table shows the composition of the bank’s loan portfolio as of December 31, 2023.

Composition of Loan Portfolio as of December 31, 2023		
Loan Type	\$(000)	%
Agricultural	1,180	0.5
Commercial	110,725	49.9
Consumer Closed End	25,661	11.6
Consumer Open End	7,474	3.4
Residential Real Estate	73,746	33.2
Gross Loans	222,049	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding and not listing nonmaterial loans.</i>		

The Lending Test is based on the bank’s major product lines. Examiners based the evaluation on statistical samples of 143 consumer loans, 54 residential real estate loans, and 78 small business loans, which were all originated between May 1, 2023, and October 31, 2023.

Examiners analyzed the following criteria to determine the Lending Test rating:

- Lending to businesses of different sizes and to borrowers of different income levels.
- Geographic distribution of loans.
- Net loan-to-deposit ratio.
- Lending inside the AA.
- The bank’s record of responding to complaints about its CRA performance.

Community Development Test Scope

Examiners reviewed the bank’s community development lending, qualified investments, and community development services since the previous evaluation for the AA and for larger state and regional areas.

Examiners based the Community Development Test rating on the bank's performance during the period of March 5, 2018, to December 31, 2023.

DESCRIPTION OF INSTITUTION

Structure. Central Savings Bank is headquartered in Sault Sainte Marie and is wholly owned by Central Bank Corporation, a one-bank holding company.

Offices and Retail Delivery Systems. The bank operates its main office and eight branches in the Upper Peninsula of Michigan. The bank's main office and one branch are located in Sault Sainte Marie. The remaining branches are in Cedarville, De Tour Village, Kinross, Pickford, Rudyard, St. Ignace, and on Mackinac Island. The bank has not opened or closed any branches since the previous evaluation. Eight of the bank's offices have drive-up facilities. The bank operates 22 ATMs. Eight of the bank's offices have ATMs (three accept deposits); the remaining 14 ATMs are cash-dispensing-only and are located throughout the AA at local businesses and medical and educational facilities.

The bank also offers online, mobile, and telephone banking. Customers can review account information, transfer funds, make loan payments, and use bill-payment services. Customers can also apply for consumer and residential real estate loans online.

Loan Portfolio. According to the December 31, 2023, Report of Condition, the bank's assets total \$430.4 million. Overall, this represents a 69.5% increase since the previous evaluation. The bank's \$222.0 million loan portfolio consists of 49.9% commercial, 33.2% residential real estate, 11.6% consumer closed end, 3.4% consumer open end, and 2.0 % agriculture and other loans. The loan portfolio increased by 49.7% since the previous evaluation. The overall composition of the loan portfolio has not changed significantly since the previous evaluation.

Credit Products. The bank offers commercial, residential real estate, and consumer loan products that fulfill the credit needs of the residents and businesses in the AA. The bank continues to participate in government-sponsored loan programs through the U.S. Small Business Administration (SBA) and U.S. Department of Agriculture Rural Development. The bank also continues to participate actively in the Federal National Mortgage Association's (Fannie Mae) Native American Conventional Lending Initiative (NACLI) program, which allows the bank to provide long-term, fixed-rate financing on tribal trust land. Since the prior CRA evaluation, the bank now also has an agreement with the Sault Ste. Marie Reservation to originate these loans in addition to its previous agreement with the Bay Mills Indian Community (Brimley, Michigan). The bank also works with other economic development and community development financial institutions to help assist in community credit needs. Finally, during the COVID-19 pandemic, the bank actively participated in the Paycheck Protection Program (PPP) through the Federal Reserve System and SBA. These loans helped to keep workers employed in 2020 and 2021.

Market Share. According to the June 30, 2023, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks first out of six FDIC-insured institutions with offices in Chippewa and Mackinac counties, with 41.9% of the deposits.

DESCRIPTION OF ASSESSMENT AREA

Assessment Area. The bank's AA includes Chippewa and Mackinac counties, which is the same as at the previous evaluation. These counties are located in the eastern portion of the Upper Peninsula of Michigan. As of 2023, the AA includes 23 census tracts: four moderate-, 12 middle-, one upper-, and six unknown-income tracts. At the time of the previous evaluation, the bank's AA consisted of 22 census tracts: three

moderate-, 11 middle-, two upper-, and six unknown-income census tracts. Three of the six unknown-income tracts cover portions of Lake Superior, Lake Michigan, and Lake Huron. The other three unknown-income tracts are special land-use designated tracts.

The AA also includes two Indian reservations and several trust land sites. According to the Federal Reserve Bank of Minneapolis’ Center for Indian Country Development, the Bay Mills Indian Community has a population of 1,199 people, 77.0% of which identify as American Indian or Alaska Native alone or in combination with another race (AIANac). Unemployment on the Bay Mills Reservation is relatively low. The Sault Ste. Marie Reservation is home to the Sault Ste. Marie Tribe of Chippewa Indians and has a population of 2,219 people, most of which identify as AIANac. Unemployment rates are higher on the Sault Ste. Marie Reservation.

The following table shows the demographic characteristics of the AA based on the 2023 Federal Financial Institutions Examination Council (FFIEC) adjusted census data¹ and 2023 Dun & Bradstreet data.

2023 Sault Sainte Marie AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	2,645	22.3
Moderate	4	17.4	2,544	21.5	454	17.8	2,154	18.2
Middle	12	52.2	8,560	72.2	863	10.1	2,880	24.3
Upper	1	4.3	754	6.4	63	8.4	4,179	35.2
Unknown	6	26.1	0	0.0	0	0.0	0	0.0
Total AA	23	100.0	11,858	100.0	1,380	11.6	11,858	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	7,704	2,502	18.1	32.5	1,364	17.7	3,838	49.8
Middle	23,513	10,452	75.4	44.5	4,181	17.8	8,880	37.8
Upper	1,502	900	6.5	59.9	192	12.8	410	27.3
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	32,719	13,854	100.0	42.3	5,737	17.5	13,128	40.1
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	353	19.5	316	19.2	22	17.7	15	33.3
Middle	1,372	75.6	1,249	75.9	95	76.6	28	62.2
Upper	88	4.9	79	4.8	7	5.6	2	4.4
Unknown	1	0.1	1	0.1	0	0.0	0	0.0
Total AA	1,814	100.0	1,645	100.0	124	100.0	45	100.0
Percentage of Total Businesses:				90.7		6.8		2.5

¹ The FFIEC adjusted census data is based on decennial U.S. Census data and American Community Survey five-year estimate data, and it also reflects the Office of Management and Budget’s metropolitan statistical area revisions.

2023 Sault Sainte Marie AA Demographics								
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	14	19.4	12	17.1	2	100.0	0	0.0
Middle	54	75.0	54	77.1	0	0.0	0	0.0
Upper	4	5.6	4	5.7	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	72	100.0	70	100.0	2	100.0	0	0.0
Percentage of Total Farms:				97.2		2.8		0.0

Source: 2023 FFIEC Census Data
2023 Dun & Bradstreet data
2023 U.S. Census Bureau: American Community Survey
NOTE: Percentages may not add up to 100.0 due to rounding.

Income. For purposes of classifying borrowers by income level, this evaluation uses the FFIEC’s estimated median family income for the nonmetropolitan areas of Michigan for the year of loan origination. The following table shows the estimated income for each year and the range for low-, moderate-, middle-, and upper-income borrowers.

Median Family Income Change AA: Sault Sainte Marie					
FFIEC Estimated Median Family Income		Low	Moderate	Middle	Upper
		0 – 49.9%	50.0% - 79.9%	80.0% - 119.9%	120.0% - and above
2022	71,500	\$0.0 - \$35,749	\$35,750 - \$57,199	\$57,200 - \$85,799	\$85,800 - & above
2023	79,800	\$0.0 - \$39,899	\$39,900 - \$63,839	\$63,840 - \$95,759	\$95,760 - & above

Source: 2018 – 2023 U.S. Census Bureau: American Community Survey

For purposes of classifying census tracts by income level, this evaluation uses the FFIEC adjusted census data median family income for nonmetropolitan Michigan, which was \$53,542 in 2018 and 2019; \$53,628 in 2020 and 2021; and \$64,965 in 2022 and 2023.

Sault Sainte Marie AA Median Family Income Change			
Area	2015 Median Family Income	2020 Median Family Income	Percent Change
Sault Sainte Marie AA	\$55,633	\$61,246	10.1%
Chippewa County, MI	\$56,877	\$62,494	9.9%
Mackinac County, MI	\$50,645	\$59,660	17.8%
Non MSA Michigan	\$58,593	\$64,965	10.9%
Michigan	\$68,010	\$75,470	11.0%

Source: 2011 - 2020 U.S. Census Bureau American Community Survey Median Family Incomes have been inflation-adjusted and are expressed in 2020 dollars

Population Characteristics. The following table shows the AA’s population change from 2015 to 2020. Overall, the AA population is slowly decreasing. Based on 2020 FFIEC adjusted census data, 68.4% of the population is white, 15.3% is American Indian, and 5.0% is black. Less than 2.0% of the population identifies as Hispanic.

Sault Sainte Marie AA Population Change			
Area	2015 Population	2020 Population	Percent Change
Sault Sainte Marie AA	49,630	47,619	-4.1%
Chippewa County, MI	38,586	36,785	-4.7%
Mackinac County, MI	11,044	10,834	-1.9%
Non MSA Michigan	1,806,007	1,807,574	0.1%
Michigan	9,900,571	10,077,331	1.8%
<i>Source: 2011-2015 U.S. Census Bureau American Community Survey 2020 U.S. Census Bureau Decennial Census</i>			

Economy. While stable and generally strong, bank management and community contacts describe an economy that struggles to find equilibrium. This is partially due to the nature of the AA’s tourism-based economy. During the tourism season, unemployment is so low that employers struggle to find employees. A community contact mentioned that unemployment for Mackinac County swings seasonally more than any other county in the state of Michigan. The 2023 not seasonally adjusted employment rate for Mackinac County supports this. The unemployment rate at the end of the tourism season (August and September) was 3.1%, but the unemployment rate for February was 21.4%.

Besides the many employers within the tourism industry, the AA has a range of employers across different industries. Major employers in the area include two tribes: the Sault Ste. Marie Tribe and the Bay Mills Indian Tribe, which run casinos and have several separate enterprises. Additionally, Superior State University, My Michigan Medical Center, Mackinac Straits Health System, and Mackinac Bridge Authority require a significant number of employees. A contact also noted that a large project at the Soo Locks has increased the population and employment in the area while also placing some constraints on housing and other services.

Although seasonal unemployment fluctuates, average annual numbers can still provide insights. As shown in the table below, the 2022 annual average unemployment rate for the AA was 7.0%, which is above Michigan’s nonmetropolitan area unemployment rate of 5.1%. Despite the many employers listed above, one community contact stated that the local economy had struggled to bring in more big box retailers, with the exception of a few places like Meyers, Kohl’s, and Walmart. Another community contact stated that lack of housing for employees may impair efforts to start new companies. Both comments may help to explain why the overall average unemployment numbers for the AA are higher than for the state as a whole.

Sault Sainte Marie AA Unemployment Rates					
Area	2018	2019	2020	2021	2022
Sault Sainte Marie AA	7.3%	7.0%	10.4%	7.0%	7.0%
Chippewa County, MI	6.6%	6.3%	9.4%	6.5%	6.4%
Mackinac County, MI	9.5%	9.2%	13.7%	8.6%	9.1%
NonMSA Michigan	4.9%	4.7%	9.3%	5.8%	5.1%
Michigan	4.2%	4.1%	10.0%	5.8%	4.2%
<i>Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics</i>					

Housing. According to community contacts and bank management, housing availability is very limited. Although the AA’s population is declining, local housing was already in short supply when federal legislation funded the new Soo Locks project. This large-scale project requires many construction workers to relocate to the area. While companies have attempted to house some construction workers in temporary housing, the influx of workers drastically reduced the already limited housing supply. As the project is scheduled to end in 2030, the local housing shortage will likely endure for at least that long.

The table below shows the housing cost burden faced by renters and homeowners in the AA. The U.S. Department of Housing and Urban Development defines cost-burdened families as those who pay more than 30% of their income for housing and may have difficulty affording necessities such as food, clothing, transportation, and medical care. The AA’s overall housing cost burden for renters is 34.2% and for owners is 15.9%. The AA’s housing cost burden is 64.3% for low-income renters and 59.4% for low-income owners. The high percentage of low-income renters and owners paying at least 30% of their income on housing costs is consistent with comments from community contacts that emphasized that housing is a challenge for a significant portion of the population.

Sault Sainte Marie AA Housing Cost Burden						
Area	Cost Burden - Renters			Cost Burden - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Sault Sainte Marie AA	64.3%	21.3%	34.2%	59.4%	21.0%	15.9%
Chippewa County, MI	68.0%	19.0%	35.8%	60.2%	20.9%	15.7%
Mackinac County, MI	52.8%	29.1%	29.4%	57.6%	21.2%	16.3%
NonMSA Michigan	66.7%	28.6%	39.3%	58.3%	25.0%	17.5%
Michigan	74.8%	32.5%	43.0%	61.2%	26.1%	17.7%
<i>Source: U.S. Department of Housing and Urban Development (HUD), 2016-2020 Comprehensive Housing Affordability Strategy</i>						

According to 2023 FFIEC adjusted data, the median age of the housing stock in the AA is 49 years. The median housing value for the AA is \$124,468 and the affordability ratio is 40.5, compared to \$162,600 and 36.4 for the state of Michigan. The affordability ratio is the median household income divided by the median housing value. A higher ratio indicates greater affordability. These ratios suggest that, overall, housing in the AA is slightly less affordable than in other areas of Michigan.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s CRA rating is Outstanding. The rating is based on a Satisfactory rating for the Lending Test and an Outstanding rating for the Community Development Test.

LENDING TEST

Examiners rated the bank’s Lending Test performance Satisfactory. The following factors support the Lending Test rating:

- The bank’s lending to borrowers of different income levels and to businesses of different sizes is excellent.
- The geographic distribution of loans reflects a reasonable distribution and dispersion throughout the AA.

- The bank’s net loan-to-deposit ratio reflects a reasonable level of lending.
- The bank originated a substantial majority of loans within the AA.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank’s net loan-to-deposit ratio is reasonable given its asset size, financial condition, and the credit needs of and competition in the AA. As of December 31, 2023, the net loan-to-deposit ratio for the bank is 54.3%, which is below the national peer group’s average net loan-to-deposit ratio of 78.1%. The bank’s national peer group includes insured commercial banks having assets between \$300 million and \$1 billion.

The bank’s 24-quarter average net loan-to-deposit ratio for this evaluation is 60.5%. At the previous evaluation, the bank’s 21-quarter average net loan-to-deposit ratio was 62.3%. Since then, the bank’s net loan-to-deposit ratio has ranged from a low of 49.7% (March 2022) to a high of 71.5% (June 2019). The bank faces competition from regional banks and credit unions. The bank’s net loan-to-deposit ratio is reasonable given the credit needs and opportunities in the AA. The bank is an active lender in a highly competitive market. The bank’s net loan-to-deposit ratio demonstrates the bank’s willingness to meet the credit needs in its AA. In addition, community contacts did not identify any unmet credit needs.

The table below shows the 24-quarter average net loan-to-deposit ratios for the bank and one other institution operating in the bank’s AA. As shown below, the bank’s average net loan-to-deposit ratio is above the comparison’s ratio, which is relevant even though the other bank is smaller.

24-Quarter Average Net Loan-to-Deposit Ratios		
Bank Name and Location	Total Assets as of December 31, 2023	Average Net Loan-to-Deposit Ratio
Central Savings Bank, Sault Sainte Marie, Michigan	\$430,381	60.5%
The First National Bank of Saint Ignace Saint Ignace, Michigan	\$329,390	29.3%

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE AA

The bank originated a majority of its loans within its AA, specifically, 85.8% of loans by number and 81.2% by dollar amount. The following table shows lending activity by loan type inside and outside the AA.

Lending Inside and Outside the AA								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Consumer	126	88.1	1,742	88.0	17	11.9	239	12.1
Residential	44	81.5	6,090	79.1	10	18.5	1,607	20.9
Small Business	66	84.6	11,769	81.4	12	15.4	2,697	18.6
Total	236	85.8	19,600	81.2	39	14.2	4,543	18.8

Bank management primarily serves the credit needs of borrowers within the Bank’s AA and occasionally makes loans outside of the AA, typically to maintain customer relationships. The bank’s lending reflects management’s commitment to meeting the credit needs of the residents and businesses within its AA.

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

The overall distribution of loans among borrowers of different income levels and to businesses of different sizes is excellent.

Consumer Lending. The bank’s consumer lending to low- and moderate-income borrowers is excellent. As shown in the table below, 25.4% of the households in the AA are low income and 16.1% are moderate income. The bank originated 42.1% of its consumer loans to low-income borrowers, which is well above the percentage of low-income households in the AA. The bank originated 27.0% of its consumer loans to moderate-income borrowers, which also exceeds the percentage of moderate-income households in the AA. Overall, the bank extended 69.1% of its loans to low- and moderate-income borrowers, which is above demographics (41.5%).

Additionally, of the loans in the sample, 55.6% were for amounts of \$3,000 or less. Of these small dollar loans, 94.5% were to low- and moderate-income borrowers. The bank’s small dollar lending shows its willingness to meet the credit needs of low- and moderate-income borrowers, which enhances the bank’s consumer lending performance. Bank management indicated that the bank faces considerable competition for consumer loans from credit unions and other local financial institutions.

Distribution of 2023 Consumer Loan Data Lending By Borrower Income Level					
AA: Sault Sainte Marie					
Borrower Income Level	Bank Loans				Households by Household Income %
	#	#%	\$(000)	%	
Low	53	42.1	313	18.0	25.4
Moderate	34	27.0	442	25.4	16.1
Middle	17	13.5	299	17.2	20.4
Upper	15	11.9	584	33.5	38.2
Unknown	7	5.6	104	6.0	0.0
Total	126	100.0	1,742	100.0	100.0

Source: 2023 FFIEC Census Data
2016-2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.

Residential Real Estate Lending. The bank’s residential real estate lending to low- and moderate-income borrowers is excellent. As shown in the table below, 22.3% of the families in the AA are low income and 18.2% are moderate income. The bank originated 11.4 % of its residential loans to low-income borrowers and 27.3% of its residential loans to moderate-income borrowers. Overall, the bank extended 38.7% of its residential real estate loans to low- and moderate-income borrowers, which is just under demographics (40.5%).

The bank’s residential real estate lending is excellent given the performance context. As previously stated, affordable housing is a challenge in the AA. Using the assumption that a borrower can afford a home for approximately three times their annual income, an individual with the highest income in the low-income bracket (\$39,899)² could afford a \$119,697 home. Using the same assumption for a borrower with the highest income in the moderate-income bracket (\$63,839), a borrower could afford a \$191,517 home. While the median housing value in the AA is \$124,469, these homes may still not be affordable to low-income borrowers. In addition, community contacts noted there is a housing shortage in the AA, especially for homes under \$200,000. Finally, the bank participates in special loan programs, such as the NACLI program that assists in homeownership on tribal land, which further helps support the bank’s residential real estate lending to low- and moderate-income borrowers.

Distribution of 2023 Residential Lending By Borrower Income Level					
AA: Sault Sainte Marie					
Borrower Income Level	Bank Loans				Families by Family Income %
	#	#%	\$(000)	%	
Low	5	11.4	388	6.4	22.3
Moderate	12	27.3	1,199	19.7	18.2
Middle	11	25.0	1,557	25.6	24.3
Upper	16	36.4	2,946	48.4	35.2
Unknown	0	0.0	0	0.0	0.0
Total	44	100.0	6,090	100.0	100.0

Source: 2023 FFIEC Census Data
2016-2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.

Small Business Lending. The bank’s small business lending is excellent. The following table shows the bank’s small business lending by business revenue and loan size.

Distribution of 2023 Small Business Lending By Revenue Size of Businesses					
AA: Sault Sainte Marie					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	52	78.8	7,455	63.3	90.7
Over \$1 Million	14	21.2	4,313	36.6	6.8
Revenue Unknown	0	0.0	0	0.0	2.5
Total	66	100.0	11,769	100.0	100.0

² Based on the 2023 FFIEC estimated median family income for nonmetropolitan areas of Michigan

Distribution of 2023 Small Business Lending By Revenue Size of Businesses					
AA: Sault Sainte Marie					
By Loan Size					
\$100,000 or Less	35	53.0	1,659	14.1	
\$100,001 - \$250,000	17	25.8	2,621	22.3	
\$250,001 - \$1 Million	14	21.2	7,488	63.6	
Total	66	100.0	11,769	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	32	61.5	1,502	20.1	
\$100,001 - \$250,000	12	23.1	1,828	24.5	
\$250,001 - \$1 Million	8	15.4	4,125	55.3	
Total	52	100.0	7,455	100.0	
<i>Source: 2023 FFIEC Census Data</i>					
<i>2023 Dun & Bradstreet Data</i>					
<i>2016-2020 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

The bank originated 78.8% of its small business loans to entities with gross annual revenues of \$1 million or less. The bank’s lending is below demographics (90.7%) but is nonetheless excellent given the performance context.

Of the bank’s small business loans, 61.5% of the loans were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller businesses. In addition, the bank actively participated in PPP lending in 2020 and 2021. The bank originated over 500 PPP loans totaling more than \$31.0 million. Of these loans, 82.7% were extended to borrowers in the bank’s AA. Of the PPP loans in the bank’s AA, 64.6% were for loan amounts of \$25,000 or less. The bank’s extension of PPP loans during the COVID-19 pandemic was very responsive to the credit needs of small businesses, which enhances the bank’s small business lending performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution and dispersion of the bank’s loans is reasonable and does not reveal any unexplained gaps in lending.

Consumer Lending. The geographic distribution of consumer loans is reasonable. The table below shows the distribution of consumer loans by census tract income level. The bank originated 7.1% of its consumer loans in the moderate-income census tracts. The bank’s lending is below demographics, which indicates that 19.7% of households in the AA are in the moderate-income census tracts. The bank’s AA has four moderate-income census tracts, and the bank has branches in two of the moderate-income census tracts. The moderate-income census tracts in the AA tend to fluctuate to some extent. For example, census tract 9503.00 was middle income in 2023 but moderate income in 2021. Similarly, two tracts (9707.00 and 9708.00) were moderate income in 2023 but middle income in 2021. The bank’s lending has generally been consistent, but the classification of tracts impacts its moderate-income lending percentages. The bank originated the most moderate-tract consumer loans near its Kincheloe branch. Given the bank’s branch locations and lending opportunities, the consumer lending distribution is reasonable.

Distribution of 2023 Consumer Lending By Income Level of Geography					
AA: Sault Sainte Marie					
Geographic Income Level	Bank Loans				Households %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	9	7.1	90	5.2	19.7
Middle	97	77.0	1,359	78.0	74.7
Upper	20	15.9	294	16.9	5.6
Unknown	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	
Total	126	100.0	1,742	100.0	100.0

Source: 2023 FFIEC Census Data
2016-2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.

Residential Real Estate Lending. The geographic distribution of the bank’s residential real estate loans is reasonable. The table below shows the distribution of loans by census tract income level. The bank originated 6.8% of its residential real estate loans in the moderate-income census tracts. This is below demographics, which indicate that 18.1% of owner-occupied units in the AA are in the moderate-income census tracts. The bank’s residential real estate lending is also below the percentage of families in the AA who reside in moderate-income areas (21.5%). The bank made loans in three of the four moderate-income census tracts. Although the bank’s lending is below demographics, the lending dispersion and branch locations indicate that the bank intends to serve all parts of its AA.

Distribution of 2023 Residential Lending By Income Level of Geography					
AA: Sault Sainte Marie					
Geographic Income Level	Bank Loans				Owner Occupied Units %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	3	6.8	295	4.8	18.1
Middle	36	81.8	5,174	85.0	75.4
Upper	5	11.4	621	10.2	6.5
Unknown	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	
Total	44	100.0	6,090	100.0	100.0

Source: 2023 FFIEC Census Data
2016-2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.

Small Business Lending. The geographic distribution of small business loans is reasonable. The following table shows the bank’s small business lending by census tract income level, as well as demographic data.

Distribution of 2023 Small Business Lending By Income Level of Geography					
AA: Sault Sainte Marie					
Geographic Income Level	Bank Loans				Total Businesses %
	#	#%	\$(000)	\$%	
Low	0	0.0	0	0.0	0.0
Moderate	5	7.6	858	7.3	19.5
Middle	53	80.3	8,995	76.4	75.6
Upper	8	12.1	1,915	16.3	4.9
Unknown	0	0.0	0	0.0	0.1
Tract Unknown	0	0.0	0	0.0	
Total	66	100.0	11,769	100.0	100.0

Source: 2023 FFIEC Census Data
2023 Dun & Bradstreet Data
2016-2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.

The table above shows that the bank originated 7.6% of its small business loans in moderate-income tracts. According to Dun & Bradstreet data, 19.5% of the businesses in the AA are located in the moderate-income tracts. The bank extended most of its small business loans near Sault Sainte Marie, where the census tracts are middle or upper income. This area has more commercial activity. However, the bank has branches in two of its four moderate-income census tracts. While the bank’s lending in moderate-income census tracts is lower than demographics, the bank’s distribution and dispersion of small business loans throughout the AA is reasonable.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.

COMMUNITY DEVELOPMENT TEST

The bank’s Community Development Test rating is Outstanding. The bank’s community development activities demonstrate excellent responsiveness to the needs of the AA. The bank engaged in community development lending, made qualified investments in the form of securities and donations, and provided community development services.

Community Development Loans. The bank’s community development lending is excellent. The bank originated 17 community development loans totaling \$22.3 million, which directly benefit the bank’s AA. Most community development loan dollars financed efforts that served to revitalize or stabilize a distressed or underserved census tract. Eight of the loans were for \$1 million or greater that borrowers needed for operating lines of credit or bridge loans. These loans helped to retain employees, develop real estate, and provide interim funding.

Qualified Investments. The bank's level of qualified investments is excellent. During the evaluation period, the bank purchased \$4.1 million in bonds that directly benefit the bank's AA and \$539,753 in bonds that benefit a broader regional area including the bank's AA. These investments helped revitalize and stabilize a distressed and underserved area and provided community services for low- and moderate-income children by financing school district needs, including building improvements and operating expenses. The bank continued to hold \$5.2 million in investments that directly benefited the bank's AA or a broader regional or statewide area that includes the bank's AA. Most of these investments supported revitalization and stabilization of qualified areas, while others supported economic development and the provision of community services for low- and moderate-income people. Nearly all of the prior-period investments matured or were called or sold during the evaluation period. Given the bank's responsiveness to the needs in its AA, examiners also considered investments made outside of the bank's AA. The bank made an investment for \$400,000 supporting a school district that primarily serves low- and moderate-income children.

The bank made an excellent level of donations during the evaluation period. The bank made approximately \$123,000 in donations that directly benefited its AA. The bank primarily made donations that revitalized and stabilized underserved or distressed census tracts and donations that supported organizations that serve low- and moderate-income individuals. The bank made numerous small dollar donations but also a few sizeable donations that supported local schools, community spaces, and organizations serving low-income individuals. The bank also made donations that impacted a larger regional area that includes its AA. Finally, the bank made a number of qualified donations that impacted areas outside its AA.

Community Development Services. The bank's level of community development service is excellent. During the evaluation period, bank officers and staff provided 47 community development services to 12 organizations that supported the revitalization or stabilization of underserved, distressed, or moderate-income areas, the provision of community services to low- and moderate-income people, affordable housing efforts, and economic development primarily in the bank's AA. Of those services, eight were to two organizations that serve a broader regional area including the bank's AA.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B--Equal Credit Opportunity Act, Regulation C--Home Mortgage Disclosure Act, and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

Appendix A

Glossary of Common CRA Terms

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/AA.

Census tract: A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. It does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Distressed nonmetropolitan middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (i.e., approved, denied, or withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

Low income: Individual income that is less than 50 percent of the area median income or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/AA.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Middle income: Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate income: Individual income that is at least 50 percent and less than 80 percent of the area median income or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate MSA. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate MSA, the institution will receive a rating for the multistate metropolitan area.

Small loan to business: A loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

Small loan to farm: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

Underserved middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper income: Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)