

PUBLIC DISCLOSURE

March 5, 2018

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.

Examiners evaluated the Community Reinvestment Act (CRA) performance of Central Savings Bank, Sault Sainte Marie, Michigan, using the Small Bank CRA Examination Procedures. Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of the residents and small businesses in its assessment area.

Several factors support the bank's Outstanding rating:

- Overall, the bank's lending to borrowers of different income levels and to businesses of different sizes is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank's net loan-to-deposit ratio is more than reasonable given the bank's asset size and financial condition as well as the credit needs of the assessment area. The bank's community development loans supplement the bank's lending performance.
- The bank originated a substantial majority of its loans within the assessment area.
- The bank's qualified investments (securities and donations) and community development services enhance credit availability in the bank's assessment area. The level of securities is particularly noteworthy given the bank's asset size.

The bank received an Outstanding rating at its previous CRA performance evaluation, conducted November 5, 2012.

SCOPE OF EVALUATION

The scope of the evaluation covers the bank's major product lines. Examiners based the evaluation on statistical samples of 123 consumer and 71 residential real estate loans originated between April 1, 2017, and September 30, 2017, and 52 small business loans originated between October 1, 2016, and September 30, 2017. Table 1 displays the bank's loan origination activity from January 1, 2016, to December 31, 2016.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Construction/Land Development	13	2.0	\$1,222,485	2.8
Consumer	307	46.3	4,353,478	10.1
Home Equity Lines of Credit	35	5.3	1,506,445	3.5
Residential Real Estate	240	36.2	23,407,533 ²	54.3
Small Business (≤ \$1 million)	58	8.7	5,686,700	13.2
Commercial (> \$1 million)	4	0.6	6,605,887	15.3
Tax Exempt	6	0.9	322,565	0.7
Total	663	100.0	\$43,105,093	100.0

¹Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

²The bank sells a majority of its residential real estate loans on the secondary market.

Examiners analyzed the following performance criteria to determine the bank's CRA rating:

- Lending to borrowers of different income levels and to businesses of different sizes.
- Geographic distribution of loans.
- Net loan-to-deposit ratio.
- Lending inside the assessment area.
- Record of responding to complaints about the bank's CRA performance.

Of the five core criteria, examiners placed the greatest weight on the first three criteria listed above. The bank has not received any CRA-related complaints since the previous evaluation. By product, examiners weighted consumer and residential real estate loans equally and greater than small business loans, based on lending activity, as shown in Table 1.

At the option of bank management, and in accordance with the Small Bank CRA Examination Procedures, examiners reviewed the bank's qualified investments and community development services. Examiners also reviewed the bank's community development loans. The bank's high level of community development activities enhances the overall CRA rating. The evaluation period for community development activities is from November 5, 2012, to March 2, 2018.

The evaluation is based in part on discussions with bank management and interviews with members of the community familiar with economic issues and demographic characteristics of the assessment area. Examiners used information from these sources to evaluate the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Structure. Central Savings Bank is a full-service institution that is wholly owned by Central Bank Corporation, a one-bank holding company in Sault Sainte Marie.

Offices. The bank operates its main office and eight branches in 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, four offer extended hours, and two offer weekend hours. The bank operates 18 ATMs. Eight of the bank's offices have ATMs (three accept deposits); the remaining ATMs (three of which are new since the previous evaluation) are cash-dispensing-only and are located throughout the assessment area at local businesses and medical and educational facilities.

Alternative Delivery Methods. The bank offers online, mobile, and telephone banking. Customers are able to 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, 2017, Report of Condition, the bank's assets total \$254.0 million. The bank's \$148.3 million loan portfolio consists of 56.5% commercial, 35.3% residential real estate, 7.1% consumer, 0.1% agriculture, and 1.1 % other loans. 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 assessment area. In addition to offering a variety of conventional loan products, 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 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.

Deposit Market Share. According to the June 30, 2017, 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 36.4% of the deposits.

DESCRIPTION OF ASSESSMENT AREA

Bank Information and Assessment Area. The bank's assessment area 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. The bank's assessment area includes 22 census tracts: three moderate income, 11 middle income, two upper income, and six unknown income. Since the previous evaluation, the total number of tracts in the assessment area increased from 16 to 22 after the release of 2010 U.S. Census data. The assessment area now includes six unknown-income tracts; three of these tracts cover portions of Lake Superior, Lake Michigan, and Lake Huron.³ The other three unknown-income tracts are special land-use designated tracts (correctional facilities).⁴ In addition, the income classifications of several tracts changed in 2017, as described further in the Geographic Distribution of Loans section, based on 2017 Federal Financial Institutions Examination Council (FFIEC) adjusted census data.⁵ Finally, in 2017, all 11 middle-income tracts were classified as distressed. Four of the 11 tracts were also classified as underserved.

Two Indian reservations, including several trust land sites, are located in the bank's assessment area: the Bay Mills Indian Community (Brimley, Michigan) and the Sault Ste. Marie Reservation (Sault Sainte Marie). According to the Bay Mills Indian Community's website, the tribe has 2,057 members. A community contact indicated that the Sault Ste. Marie Tribe of Chippewa Indians (Sault Tribe) has approximately 14,000 to 16,000 members who live in the region; the nationwide membership is approximately 45,000.

Table 2, on the following page, shows the demographic characteristics of the assessment area based on 2017 FFIEC adjusted census data and 2016 Dun & Bradstreet data.

³Some ranges of census tract numbers in the 2010 Census are used to identify distinctive types of tracts. These three unknown-income tracts (9900s) were delineated specifically to cover large bodies of water.

⁴Beginning with the 2010 Census, these tracts (9800s) were designated as special land-use tracts; that is, tracts defined to encompass a large area with little or no residential population with special characteristics, such as large parks or employment areas.

⁵The FFIEC adjusted census data is based on decennial U.S. Census data and American Community Survey (ACS) five-year estimate data, and it also reflects the Office of Management and Budget's metropolitan statistical area revisions.

Combined Demographics Report

Assessment Area: 2017 Sault Sainte Marie AA

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0	0	0	0	0	2,616	21.7
Moderate-income	3	13.6	2,199	18.3	462	21	2,288	19
Middle-income	11	50	7,591	63.1	870	11.5	2,621	21.8
Upper-income	2	9.1	2,243	18.6	136	6.1	4,508	37.5
Unknown-income	6	27.3	0	0	0	0	0	0
Total Assessment Area	22	100	12,033	100	1,468	12.2	12,033	100
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0	0	0	0	0	0
Moderate-income	4,963	2,047	15	41.2	1,260	25.4	1,656	33.4
Middle-income	22,602	9,010	65.9	39.9	3,781	16.7	9,811	43.4
Upper-income	4,687	2,615	19.1	55.8	493	10.5	1,579	33.7
Unknown-income	0	0	0	0	0	0	0	0
Total Assessment Area	32,252	13,672	100	42.4	5,534	17.2	13,046	40.5
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	0	0	0	0	0	0	0	0
Moderate-income	233	11.2	205	10.8	20	14.7	8	14.3
Middle-income	1,529	73.4	1,389	73.5	104	76.5	36	64.3
Upper-income	318	15.3	294	15.5	12	8.8	12	21.4
Unknown-income	3	0.1	3	0.2	0	0	0	0
Total Assessment Area	2,083	100	1,891	100	136	100	56	100
Percentage of Total Businesses:				90.8		6.5		2.7
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	0	0	0	0	0	0	0	0
Moderate-income	7	9.5	7	9.9	0	0	0	0
Middle-income	55	74.3	52	73.2	2	100	1	100
Upper-income	12	16.2	12	16.9	0	0	0	0
Unknown-income	0	0	0	0	0	0	0	0
Total Assessment Area	74	100	71	100	2	100	1	100
Percentage of Total Farms:				95.9		2.7		1.4

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. This figure is \$55,800 for 2017. For purposes of classifying census tracts by income level, this evaluation relies on the FFIEC's adjusted census data median family income, which was \$51,187 in 2016 and \$53,542 in 2017, for nonmetropolitan Michigan.

Population. According to 2017 FFIEC adjusted census data, the population of the bank's assessment area is 49,630, which shows a slight decrease (1.7%) since the 2000 census. Sault Sainte Marie is the largest city in the assessment area and the county seat of Chippewa County, which is on the U.S. and Canadian border. The 2016 estimated population of Sault Sainte Marie was 13,941, which is a slight decrease from the 2010 population of 14,144. A community contact indicated that the population in Sault Sainte Marie and surrounding areas is projected to decrease by half a percentage point annually as younger residents move to other areas. According to a contact and bank management, summer tourism on Mackinac Island attracts a significant number of visitors and temporary workers. Based on 2017 FFIEC adjusted census data, 15.0% of the population in the assessment area is American Indian.

General Economic and Business Characteristics. According to bank management and community contacts, overall, the economy continues to be stable with some growth. Tourism and recreation are the economic drivers, given the area's proximity to the Great Lakes and the Soo Locks. The hospitality sector has been doing well and improving. This sector, especially on Mackinac Island, employs a sizable number of individuals, many of whom hold temporary work visas. A contact described the area as trails-focused for walking, bicycling, snowmobiling, and hiking, along with water trails for kayaking and canoeing; there are many miles of trail systems. In general, the local economy is well insulated because of significant government employment, including federal, state, county, and tribal governments. Government employers include, among others, U.S. Customs and Border Protection, U.S. Army Corps of Engineers, United States Coast Guard, and state correctional facilities.

Other major employers in the area include Lake Superior State University (LSSU) and the local hospital. A contact indicated that LSSU and the hospital pay well and offer benefits. The hospital has expanded rapidly during the past several years. An electric cooperative, which manages the hydroelectric plant and provides half of the region's energy, is also a prominent employer, according to a contact. One large, regional chain store that pays good wages and offers benefits recently entered this market. There have been some closures of both national and local stores, but a number of small businesses also recently opened in downtown Sault Sainte Marie. Manufacturing has a smaller presence than other industries. A contact noted that some manufacturing companies have had to turn work down because they are so busy and there is a shortage of skilled workers. A contact indicated that tribal enterprises such as casinos, hotels, gas stations, an ice arena, a health care facility, and a furniture/flooring store are also major employers for one of the local tribes.

According to the Bureau of Labor Statistics, the 2016 annual average nonseasonally adjusted unemployment rate was 7.4% for Chippewa County and 9.4% for Mackinac County; these percentages are higher than the statewide Michigan annual average rate of 5.0 % for the same period. According to bank management and a contact, seasonal tourism significantly affects the unemployment rate, particularly in Mackinac County and on Mackinac Island. The tourism season typically runs from early June to early September. The nonseasonally adjusted unemployment rate for Mackinac County was 21.1% in January 2017 and only 3.3% in July 2017.

The bank operates in a highly competitive banking environment. Community contacts indicated that, overall, local financial institutions are meeting credit needs.

Housing. According to 2017 FFIEC adjusted census data, the assessment area has 32,252 housing units: 42.4% are owner-occupied, 17.2% are rental, and 40.5% are vacant units, which includes vacation homes. Bank management indicated that there are vacation homes on Sugar Island, Drummond Island, and in the Cedarville area, and a contact indicated that homes along the waterfront have prices between \$250,000 and \$600,000. For local residents, homes in other areas are affordable and available. However, a contact indicated that these houses are usually aged and not well maintained, and borrowers need to invest additional money to improve them. A contact familiar with housing conditions for Sault Tribe members indicated that individuals are able to find quality, affordable homes with prices between \$60,000 and \$120,000. Contacts also indicated that there are long waiting lists for government housing assistance programs, however. The area has a shortage of affordable rental units; prices are too high for lower-income individuals. New construction in recent years has generally been for market-rate housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s performance in meeting the credit needs of its assessment area is rated Outstanding. Overall, the bank’s lending to low- and moderate-income borrowers and to small businesses is reasonable. The geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending. The bank’s net loan-to-deposit ratio is more than reasonable; the bank’s community development lending supplements the bank’s lending performance. The bank originated a substantial majority of its loans, by number, within its assessment area. Finally, the bank’s qualified investments and community development services enhance credit availability in the assessment area and the bank’s overall CRA rating.

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

Consumer Lending. The bank’s consumer lending to low- and moderate-income borrowers is reasonable. As shown in Table 3, 25.8% of the households in the assessment area are low income and 17.3% are moderate income. The bank originated 24.2 % of its consumer loans to low-income borrowers, which is slightly below the percentage of low-income households in the assessment area. The bank originated 20.8% of its consumer loans to moderate-income borrowers, which slightly exceeds the percentage of moderate-income households in the assessment area. Overall, the bank extended 45.0% of its loans to low- and moderate-income borrowers, which is slightly above demographics (43.1%).

TABLE 3								
Distribution of Consumer and Residential Real Estate Loans in the Assessment Area by Borrower Income Level*								
<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Consumer	24.2%	12.4%	20.8%	13.3%	27.5%	29.0%	27.5%	45.3%
Residential Real Estate	5.1%	2.8%	15.3%	6.3%	25.4%	19.2%	54.2%	71.6%
Percentage of Households by Income Levels**	25.8%		17.3%		18.3%		38.6%	
Percentage of Families by Income Levels**	21.7%		19.0%		21.8%		37.5%	
*Median family income for nonmetropolitan Michigan is \$55,800 for 2017.								
**Based on 2017 FFIEC census data.								

The bank provides small-dollar consumer loans, which help serve the needs of low- and moderate-income borrowers. According to bank management, borrowers typically use these loans for expenses like car repairs. Of the loans in the sample, 23.3% were for amounts of \$3,000 or less. Of these small-dollar loans, 71.4% were to low- and moderate-income borrowers. The bank does not require a minimum loan amount.

Residential Real Estate Lending. The bank’s lending to low- and moderate-income borrowers is excellent. As shown in Table 3, 21.7% of the families in the assessment area are low income and 19.0% are moderate income. The bank originated 5.1% of its residential real estate loans to low-income borrowers, which is below demographics. The bank originated 15.3% of its loans to moderate-income borrowers, which is closer to demographics but still below. Overall, the bank extended 20.3% of its loans to low- and moderate-income borrowers, compared to demographics of 40.7%. While the low- and moderate-income lending is below demographics, the bank’s participation in flexible lending practices is noteworthy and significantly contributes to the bank’s excellent performance in lending to low- and moderate-income borrowers. Specifically, the bank originated 14 NACLI loans totaling approximately \$1 million since the previous evaluation, which included loans to members of both local tribes.

Although the bank’s overall lending to low- and moderate-income borrowers is lower than demographics, it can be explained. Using the assumption that a borrower can obtain a loan for approximately three times annual income, an individual with the highest income in the low-income bracket (\$27,899) would be able to afford an \$83,697 home, based on the 2017 FFIEC estimated median family income of \$55,800 for nonmetropolitan Michigan. An individual with the highest income in the moderate-income bracket (\$44,639) would be able to afford a \$133,917 home. This data suggests that the 2017 FFIEC census data median housing value of \$110,697 in the assessment area would not be affordable for many low-income residents. According to a contact, while homes are affordable because of low home prices, the lower quality of the homes is an issue, and borrowers need to invest additional money for improvements.

Bank management also indicated that competition for residential real estate loans is strong and that demand for residential real estate loans has been down because of rising interest rates.

Small Business Lending. The bank’s small business lending is reasonable. Table 4 shows the bank’s small business lending. The bank extended 83.7% of its small business loans to businesses with gross annual revenues of \$1 million or less. According to 2016 Dun & Bradstreet data, 90.8% of businesses in the assessment area have gross annual revenues of \$1 million or less. Bank management indicated that competition for commercial loans is strong in the assessment area. Businesses have generally been profitable, and loan demand has been increasing.

<i>Small Business Originations</i>	<i>≤ \$100,000</i>	<i>> \$100,000 to ≤ \$250,000</i>	<i>> \$250,000 to ≤ \$1,000,000</i>	<i>Total Originations</i>
Percentage of Small Business Loans	69.8%	27.9%	2.3%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	72.2%	25.0%	2.8%	83.7%

Of the bank’s small business loans to businesses with revenues of \$1 million or less, 72.2% were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller entities. The bank continues to participate in SBA loans.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and does not reveal any unexplained gaps in lending.

According to 2017 FFIEC census data, the assessment area includes three moderate-income, 11 middle-income, two upper-income, and six unknown-income tracts. There are no low-income tracts in the bank’s assessment area. According to 2016 FFIEC census data,⁶ the assessment area included two moderate-income, 12 middle-income, two upper-income, and six unknown-income tracts. The income classification of several tracts changed from 2016 to 2017. For example, census tract 9702.00 in Chippewa County, where the bank’s main office is located, and census tract 9503.00 in Mackinac County changed from middle income to moderate income. Census tract 9707.00 in Chippewa County changed from moderate income to middle income.

As previously mentioned, three of the unknown-income tracts cover bodies of water. The remaining three unknown-income tracts are special land-use designated tracts, and correctional facilities are in and near these areas in Chippewa County. The bank did not extend any loans in the six unknown-income tracts, which is reasonable given the performance context.

Consumer Lending. The distribution of consumer loans is reasonable. Table 5 shows the distribution of loans by census tract income level. The bank originated 15.0% of its consumer loans in the moderate-income tracts. The bank’s performance is slightly below demographics, which indicate 17.2% of households in the assessment area reside in the moderate-income tracts. Of the loans in the moderate-income tracts, the bank originated the majority in the tract where its main office is located, which is reasonable. The bank also extended a number of loans to borrowers residing in the tract where the Kinross branch is located. The bank did not extend any consumer loans in the remaining moderate-income tract located in western Mackinac County, which is explainable. This is a rural, recreational area and other financial institutions are more conveniently located than the bank’s offices.

TABLE 5												
Geographic Distribution of Residential Real Estate and Consumer Loans by Census Tract Income Level*												
<i>Loan Type Sample</i>	<i>Moderate Income</i>				<i>Middle Income</i>				<i>Upper Income</i>			
	#	%	\$(000s)	%	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential Real Estate	8	13.6	951	15.0	35	59.3	3,577	56.5	16	27.1	1,802	28.5
Consumer	18	15.0	120	9.9	74	61.7	757	62.3	28	23.3	338	27.8
Demographic Data												
Number of Census Tracts	3				11				2			
Percentage of Census Tracts	13.6%				50.0%				9.1%			
Percentage of Families	18.3%				63.1%				18.6%			
Percentage of Households	17.2%				66.6%				16.2%			
*Income classification of census tracts is based on the 2017 FFIEC census data.												
Note: The bank did not extend any loans in the unknown-income tracts; accordingly, this table does not include a column for this tract designation.												

Residential Real Estate Lending. The distribution of the bank’s residential real estate loans is reasonable. Table 5 shows the distribution of loans by census tract income level. The bank originated 13.6% of its

⁶As previously mentioned, the small business loan sample includes loans from 2016 and 2017.

residential real estate loans in the moderate-income tracts, which is below the percentage of families (18.3%) in the assessment area that reside in moderate-income areas. The bank’s lending is generally consistent with the percentage of owner-occupied units (15.0%) in the assessment area that are located in the moderate-income tracts.

The bank made loans in the tract where its main office and established residential neighborhoods are located, which is reasonable. Similar to consumer lending, the bank did not extend any residential real estate loans in the moderate-income tract located in western Mackinac County. The bank also did not extend any residential real estate loans in the moderate-income tract where its Kinross branch is located. The airport is in this tract, and the three special land-use unknown-income tracts are in or near this area. Although the sample did not include any loans in this particular moderate-income tract, bank management indicated that the bank extends residential real estate loans in this area.

Small Business Lending. The distribution of small business loans is reasonable. Table 6 shows the bank’s small business lending by census tract income level.

TABLE 6												
Geographic Distribution of Small Business Loans												
by Census Tract Income Level*												
<i>Loan Type Sample</i>	<i>Moderate</i>				<i>Middle</i>				<i>Upper</i>			
	#	%	\$(000s)	%	#	%	\$(000s)	%	#	%	\$(000s)	%
Small Business	4	9.3	494	13.4	32	74.4	2,807	76.1	7	16.3	386	10.5
Demographic Data												
Number of Census Tracts	3				11				2			
Percentage of Census Tracts	13.6%				50.0%				9.1%			
Percentage of Businesses**	11.2%				73.4%				15.3%			
*Income classification of census tracts based on 2017 FFIEC census data.												
**Percentages are based on 2016 Dun & Bradstreet data.												
Note: The bank did not extend any loans in the unknown-income tracts; accordingly, this table does not include a column for this tract designation.												

Overall, the bank originated 9.3% of its small business loans in moderate-income tracts, which is slightly below demographics. According to 2016 Dun & Bradstreet data, 11.2% of businesses are located in the moderate-income tracts. In 2016,⁷ the bank extended one small business loan in moderate-income tract 9707.00, which is in a rural and recreational area. In 2017, the bank extended three small business loans in the moderate-income tract where its main office is located. The bank did not extend any small business loans in the moderate-income tract where its Kinross branch is located or in moderate-income tract 9503.00 in western Mackinac County; this is reasonable given the performance context. The bank originated the majority of its small business loans in Chippewa County, which is where most of its offices are located.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank’s net loan-to-deposit ratio is more than reasonable, given the bank’s size and financial condition and the assessment area’s credit needs. The bank’s community development lending supplements its lending performance and further illustrates the bank’s commitment to meeting the credit needs of the assessment area.

⁷The majority of the bank’s small business loans in the sample were originated in 2017.

As of December 31, 2017, the bank’s net loan-to-deposit ratio was 66.2%, which is below the peer group net loan-to-deposit ratio of 77.1%. The bank’s peer group includes insured commercial banks not located in a metropolitan statistical area that have assets between \$100 million and \$300 million and three or more full-service banking offices.

The bank’s average net loan-to-deposit ratio for the past 21 quarters is 62.3%. At the previous evaluation, the bank’s 21-quarter average net loan-to-deposit ratio was 70.9%. Since then, the bank’s quarterly net loan-to-deposit ratio has ranged from 57.5% to 66.3%. The ratio was 57.5% as of September 30, 2014, which was the low point; bank management indicated that from July to September of each year, deposits significantly increase because of the tourist season. For example, from June 30, 2017, to September 30, 2017, deposits increased by approximately \$15.1 million. The bank continues to sell a majority of its residential real estate loans on the secondary market; these loans are not reflected in the loan-to-deposit ratio. According to bank management, competition for commercial, residential real estate, and consumer loans is strong, and demand has varied by loan type.

Table 7 shows the 21-quarter average net loan-to-deposit ratios for the bank and two other institutions operating in the bank’s assessment area. As shown, the bank’s average net loan-to-deposit ratio is significantly above the similarly sized institution, and slightly below but comparable to the other.

<i>Bank Name and Location</i>	<i>Total Assets as of December 31, 2017 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Central Savings Bank Sault Sainte Marie, Michigan	\$253,985	62.3%
The First National Bank of Saint Ignace Saint Ignace, Michigan	\$267,528	37.0%
Old Mission Bank Sault Sainte Marie, MI	\$109,071	67.1%

Community Development Lending. The bank originated 11 community development loans totaling \$14.4 million since the previous evaluation, which is noteworthy. The bank extended its largest dollar community development loan, for \$5.4 million, to an area medical facility that provides emergency health services to primarily low- and moderate-income individuals. The bank also annually renews a line of credit to the same medical facility, which operates in an area that was designated as distressed for certain years during the evaluation period. This facility helps to attract and retain residents and businesses. In addition, the bank annually renews a line of credit to a local economic development organization. Finally, the bank renewed a loan for an assisted-living facility that helps revitalize and stabilize nearby distressed areas.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

Overall, the bank originated a substantial majority of its consumer, residential real estate, and small business loans inside its assessment area. By number, the bank originated 90.2% of the loans inside the assessment area. By total dollar amount, the bank originated 77.1 % of the loans inside the assessment area. The bank’s strongest performance, by number and dollar amount, was consumer lending.

By dollar amount, small business loans comprised the largest percentage of lending outside the assessment area. Of the total small business lending outside the assessment area (approximately \$1.7 million), the bank extended 52.9% in Cheboygan County, which is adjacent to the bank’s assessment area. Bank management explained that it has a few large business customers near its assessment area who refer other customers to the bank. Table 8 shows the bank’s distribution of loans inside and outside its assessment area.

<i>Loan Type</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Residential Real Estate	59	83.1	6,330	79.7	12	16.9	1,612	20.3
Consumer	120	97.6	1,215	96.8	3	2.4	40	3.2
Small Business	43	82.7	3,687	68.6	9	17.3	1,688	31.4
Total	222	90.2	11,232	77.1	24	9.8	3,340	22.9

QUALIFIED INVESTMENTS AND SERVICES

Since the previous evaluation, the bank made qualified investments and services that enhance credit availability in its assessment area as well as the bank’s overall CRA rating. The level of qualified investments in the form of securities is particularly noteworthy given the bank’s asset size. Several of the bank’s qualified investments in the form of donations, as well as community development services, are impactful and highly responsive to community needs.

Qualified Investments. The level of qualified investments is significant and enhances the bank’s CRA performance. Since the previous evaluation, the bank purchased 28 securities for \$16.1 million that mostly provided financing to area school districts, including an American Indian charter school. Many of the schools serve distressed or distressed and underserved areas, which helps to attract and retain residents and businesses, and many schools serve primarily low- and moderate-income children. The bank also continues to hold 12 prior-period securities totaling \$2.1 million. Finally, 13 prior-period securities totaling \$2.9 million matured or were paid during the evaluation period. The majority of the bank’s securities directly benefited the bank’s assessment area, and several benefited a larger regional area that includes the bank’s assessment area.

The bank made numerous qualified investments in the form of donations benefiting its assessment area or a larger regional area including the assessment area, totaling more than \$72,384⁸ during the evaluation period. Of special note are the following donations:

- The bank made a \$100,000 commitment over three years (2017 to 2019) to LSSU’s Center for Freshwater Research and Education project. The project is for the construction of a new facility that will expand research and classroom space, among many other improvements. The new building is located in a moderate-income area that is adjacent to distressed areas, which will help to revitalize and stabilize the area. To date, the bank has funded the first installment (\$33,334) of its commitment.
- The bank made a \$10,000 donation to support the Sault Ste. Marie Power Canal Trail project, which local and state governments as well as the Michigan Economic Development Corporation

⁸The bank generally provided examiners with donations that had the most significant impact and/or larger-dollar donations during the evaluation period.

also support. This project is to develop a one-mile, multi-use trail (bicyclists and pedestrians), benefiting residents and tourists, along the south border of Michigan's only hydroelectric power canal. This project is part of a long-range goal to connect the city's two main recreational areas.

- The bank makes an annual \$2,900 donation to an organization that serves primarily low- and moderate-income individuals and focuses on basic needs, education, health, and income.
- The bank made smaller donations to the local hospital's various programs and projects, which help to revitalize and stabilize both a moderate-income area and distressed areas.

Community Development Services. The bank provided several community development services that enhance its CRA performance.⁹ Most notably, the bank continues to participate in Fannie Mae's NACLI program, which promotes affordable housing on tribal trust land, and devoted significant efforts to this program in 2017. In addition, the bank facilitates an annual community fundraiser for the local hospital's free transportation program for cancer patients, which primarily serves low- and moderate-income individuals. According to the bank, this event has raised more than \$43,800 over the past seven years.

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.

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 and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

⁹The bank generally provided examiners with community development services that had the most significant impact during the evaluation period.

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/assessment area.

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/assessment area.

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.)