



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 21, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Crystal Falls
Charter Number 14269

125 Superior Avenue
Crystal Falls, MI 49920

Office of the Comptroller of the Currency
Milwaukee/Iron Mountain Field Office
1302 ½ S. Carpenter Ave
Iron Mountain, MI 49801

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

Major factors supporting the institution's rating include:

- The Loan-to-Deposit ratio is reasonable given the bank's size, financial condition, and credit needs of its assessment area (AA).
- A majority of loan originations are made within the bank's AA.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- Geographic distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

First National Bank (FNB) of Crystal Fall's Community Reinvestment Act (CRA) performance was evaluated under the Small Bank Lending Test. Data from the bank's primary loans products, home mortgage loans and business loans, were used to evaluate the bank's lending performance.

The evaluation period covered the date from the previous CRA examination, March 4, 2002 through April 24, 2008. The Lending Test evaluated home mortgage loans and business loans originated or purchased between January 1, 2006 and March 31, 2008. A random sample of loans within the bank's assessment area (AA) for each primary loan product was taken. The most recent demographic data available was also obtained.

DESCRIPTION OF INSTITUTION

FNB Crystal Falls is a \$62 million bank with its main office located in Crystal Falls, Michigan. The institution is wholly owned by C.F.C. Bancorp, Inc., a one-bank holding company located in Crystal Falls, Michigan. The bank operates two branches in addition to the main office. One branch is located in a grocery store in Crystal Falls and the other branch is located in Sagola, MI. All three branches are located in middle-income Census Tract (CTs). The bank did not open any new branches nor did they close any during the evaluation period. Additionally, FNB Crystal Falls operates six Automated Teller Machines (ATMs) located throughout its AA. All locations have similar hours of operation.

The bank offers traditional community bank products and services. As of December 31, 2007, the loan portfolio represented 71.2% of average assets. The primary loan products are home mortgage loans (residential real estate) and business (commercial real estate and commercial & industrial) loans. By dollar volume, the loan portfolio consists of commercial real estate (36.9%), residential real estate (35.8%), commercial

& industrial (14.3%), consumer (6.2%), construction (3.0%), and all other loans (3.8%). In the period from December 31, 2005 to December 31, 2007 total loans & leases decreased by 3.3%. Most of the decrease was in residential real estate and commercial & industrial categories. In the same two-year period, commercial real estate loans increased by 7.5%. Tier 1 capital totaled \$9.1 million as of December 31, 2007.

The bank's business strategy has historically been to serve the credit and depository needs of its local community. Additionally, the bank participates in loans with other area financial institutions. Local area deposits are the source of funding for most of the loan portfolio.

There are no legal or financial impediments limiting the bank's ability to meet community credit needs of its assessment area. FNB Crystal Fall's last CRA evaluation was on March 4, 2002, using "Small Bank" procedures. The bank received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

FNB Crystal Falls has one AA located entirely in the Upper Peninsula of Michigan. The AA does not lie within a Metropolitan Statistical Area (MSA). The AA includes the eastern half of Iron County, the northern half of Dickinson County, and one Census Tract (CT) in southwestern Marquette County. The bank's AA has a total of six CTs; 0 low-, 2 moderate-, 4 middle-, and 0 upper-income CTs. The AA complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Two CTs in Iron County have been designated as "Distressed & Underserved Middle-Income Non-metropolitan Geographies". CTs 9801.00 & 9805.00 are listed as distressed due to "unemployment", and underserved because of their "remote rural location."

The AA has a population of 16,302 and a median family income (MFI) of \$39,295 based on 2000 U.S. Census data. Updated Department of Housing and Urban Development (HUD) estimates MFI at \$50,200 in 2008. There are 4,670 families in the AA. Family income levels in the AA show 21.7% as low-income (1,011 families), 22.4% as moderate-income (1,049 families), 24.3% as middle-income (1,135 families), and 31.6% as upper-income (1,475 families). 6.7% or 311 families in the AA have incomes that fall below the poverty level.

The local economy is distressed due to a decline in the logging and timber industries. There has been little change in industry or individual demographic composition. Tourism, logging, and government units continue to make up the major employers of the area. Local unemployment rates are comparable to the state average of 6.9% in 2006. Dickinson and Marquette counties had unemployment rates below the state average, while Iron County's rate is slightly higher.

Competition from other financial institutions is strong in the local market. Thirteen

financial institutions including FNB Crystal Falls serve the three counties the bank operates in. As of June 30, 2007, FNB Crystal Falls had a deposit market share of 4.06%, ranking tenth. Please note the market share analysis includes the entire counties listed above. FNB Crystal Fall's AA does not include the whole counties; therefore, the above figure does not represent the true percentage of deposit market share within the bank's AA.

In assessing the bank's CRA performance, we contacted a local area realtor to determine the community's profile, opportunities for participation by local financial institutions, as well as performance of local financial institutions. In the contact's opinion, the community's credit needs were satisfactorily being met. Overall performance of local financial institutions was also stated as satisfactory, though it was noted lending during periods of economic downturn is more stringent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Crystal Fall's loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's quarterly LTD ratio averaged 80.6% over the 24 quarters from 3/31/2002 to 12/31/2007. One similarly situated state savings bank was identified for comparison. The similarly situated bank has a LTD ratio of 93.7% and total assets equaling \$95.7 million. Two other community financial institutions were identified for comparison; however, both are located outside the bank's AA and were not considered in the LTD analysis.

Lending in Assessment Area

The bank originates a majority of its loans to borrowers within its AA. The random sample of the bank's primary loan products shows 67.8% by number and 63.9% by dollar volume of loans were originated within the AA. It should be noted that a majority of the loans "outside" of the AA are located in two larger towns that immediately border the bank's AA. Moreover, the vast majority of these "outside" loans are located in the Upper Peninsula of Michigan.

Table 1 - Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	20	76.9	6	23.1	26	874	70.0	374	30.0	1,248
Business	20	60.6	13	39.4	33	4,291	62.8	2,545	37.2	6,836
Totals	40	67.8	19	32.2	59	5,165	63.9	2,919	36.1	8,084

Source: Bank records (verified by examiners)

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

The overall distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. More weight was given to business loans because the bank’s strategy is primarily focused on lending to small businesses.

The borrower distribution of business loans within the AA is reasonable. As the following table shows, the number of loans originated to businesses with revenues under \$1 million is comparable to the demographic data.

Table 2A - Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	62.3%	2.9%	34.8%	100%
% of Bank Loans in AA by #	60.0%	40.0%	0.0%	100%
% of Bank Loans in AA by \$	21.6%	78.4%	0.0%	100%

Source: Sample of 20 bank records (verified by examiners) and Dun & Bradstreet Business Demographic Data

The borrower distribution of home mortgage loans within the AA is excellent. The bank exceeded the area demographic for both low- and moderate-income borrowers. 25.0% of randomly sampled home mortgage loans were to low-income borrowers, while the number of low-income families in the AA is 21.6%. Moderate-income borrowers totaled 35.0% of the sampled loans, which is far above the 22.5% of moderate-income families in the AA.

Table 2B - Borrower Distribution of Home Mortgage Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	21.6%	25.0%	22.5%	35.0%	24.3%	20.0%	31.6%	20.0%

Source: Sample of 20 bank records (verified by examiners) and U.S. Census Demographic Data

Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the AA.

The geographic distribution of home mortgage loans in the bank’s AA is reasonable. As the table below shows, there is a smaller percentage of loans made in the moderate-income CTs than owner-occupied housing units. While the two moderate-income CTs

are within the bank’s AA, the bank has no branches located in them, and only one ATM (located in Republic, MI). Geographically, these two CTs are located on the outer edges of the bank’s AA. There are other financial institutions located in the areas that are more accessible for customers.

Table 3A - Geographic Distribution of Home Mortgage Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	0.0%	0.0%	31.9%	10.0%	68.1%	90.0%	0.0%	0.0%

Source: Sample of 20 bank records (verified by examiners) and U.S. Census Demographic Data

The geographic distribution of business loans in the bank’s AA is poor. The random loan sample used did not contain any business loans located in the bank’s moderate-income CTs. The demographic data suggests that 31.3% of the AA’s businesses are located in the two moderate-income CTs. Again, these two CTs are located on the outer edges of the bank’s AA and the bank has no branches located in those CTs. There are other financial institutions located in the areas that are more accessible for customers.

Table 3B - Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	0.0%	0.0%	31.3%	0.0%	68.7%	100.0%	0.0%	0.0%

Source: Sample of 20 bank records (verified by examiners) and Dun & Bradstreet Business Demographic Data

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

There was no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet the needs of the community.