



PUBLIC DISCLOSURE

March 14, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank & Trust Co. of Iron Mountain
Charter Number 3806

233 South Stephenson Avenue
Iron Mountain, MI 49801

Office of the Comptroller of the Currency
Milwaukee Field Office
1200 North Mayfair Road, Suite 200
Wauwatosa, WI 53226

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

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

The Lending Test is rated Satisfactory.

The Community Development Test is rated Outstanding.

The 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 the assessment areas.
- A substantial majority of loan originations are made within the bank's assessment areas (AA).
- The borrower distribution of home mortgage loans reflects reasonable penetration among borrowers of different incomes. The borrower distribution of loans reflects excellent penetration among businesses of different sizes.
- The geographic distribution of home mortgage loans reflects reasonable dispersion among geographies in the bank's assessment area. The geographic distribution of business loans reflects reasonable dispersion among geographies in the bank's assessment area.
- The bank's community development performance through community development loans, qualified investments, and services demonstrates excellent responsiveness to community development needs in the assessment areas.

Scope of Examination

We evaluated the First National Bank and Trust Company of Iron Mountain's (FNB Iron Mountain) Community Reinvestment Act (CRA) performance under the Intermediate Small Bank Lending and Community Development Tests. In evaluating the bank's lending performance, we reviewed data for the bank's primary loan products, which are commercial and residential real estate loans.

The evaluation period covers the period since the date of the previous CRA exam, August 10, 2009, through March 14, 2016. The Lending Test evaluated loans originated between January 1, 2014 and December 31, 2015. The Community Development Test covered community development loans, investments, and services during the entire evaluation period.

We selected a sample of commercial loans and residential mortgage loans from bank generated reports in order to assess the bank's lending performance.

The analysis of the Lending Test was performed using the most recent available

demographic data. Conclusions were based on an analysis of residential real estate and commercial business loan performance, as these products represent a majority of the bank's lending activities.

We reviewed the bank's community development loans, investments, and services based on information provided by the bank. We took into account those that met the regulatory definition for community development in our analysis of the Community Development Test.

DESCRIPTION OF INSTITUTION

FNB Iron Mountain is a \$319 million bank with its main office located in Iron Mountain, MI, a middle income census tract (CT). The bank is wholly owned by FNB Bancshares, Inc., a one bank holding company. The bank operates six full service branches, which are located in the following areas: north Iron Mountain; south Iron Mountain; Econo Foods grocery store in Iron Mountain; Kingsford, MI; Iron River, MI; and Menominee, MI. All of the bank's branches, including their main office, are located within middle income CTs. The bank also operates two additional ATMs in the Drug Store and Dickinson County Memorial Hospital. The bank added two branches since the previous examination. These are the Iron River and Menominee branches mentioned above. All financial information is as of December 31, 2015.

The bank's business strategy is to serve the credit and depository needs of their local community. The bank offers a variety of traditional products and services including commercial, real estate and consumer loans, and various deposit and financial products. As of December 31, 2015, the loan portfolio represented 52 percent of total assets. The bank's primary loan products are home mortgage loans and business (commercial) loans. By dollar volume, the loan portfolio consists of residential real estate loans (32 percent), commercial loans (63 percent), consumer loans (4 percent), and other loans (1 percent).

There are no legal or financial impediments limiting the bank's ability to meet the credit needs of the AA. FNB Iron Mountain's last CRA evaluation was dated August 10, 2009, using Small Bank procedures. The bank received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA includes 28 census tracts (CTs) located in both Michigan and Wisconsin. The AA does not lie within a metropolitan statistical area (MSA). The AA consists of four moderate income CTs (14 percent), 22 middle income CTs (79 percent), and two (7 percent) upper income CTs. The AA includes all of Dickinson County, MI; all of Iron County, MI; all of Menominee County, MI; all of Florence County, WI; and a portion of Marinette County, WI. Michigan and Wisconsin counties are combined into one AA due to similar demographics and the fact that both areas rely on the same local economy. Given the bank's asset size, available resources, and limited branch locations, the designation of the entire Marinette County would be too large for the bank to reasonably

serve. The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

According to 2010 census data, the total population of the bank's AA is 90,435, which is comprised of 26,534 families. Income levels for these families are as follows: 5,229 low-income families (20 percent), 5,589 moderate-income families (21 percent), 6,414 middle-income families (24 percent), and 9,302 upper-income families (35 percent). The 2010 U.S. Census estimated median family income (MFI) is \$49,304 for the bank's AA. The 2014 and 2015 updated Department of Housing and Urban Development (HUD) estimated MFIs are \$56,054 and \$56,886, respectively. In addition, 9 percent of AA households have incomes that fall below the poverty level. Based on 2015 demographic data, the AA has 5,344 non-farm businesses. Of these businesses, 3,980 (74 percent) had revenues less than or equal to \$1 million, 312 (6 percent) had revenues greater than \$1 million, and 1,052 (20 percent) did not report revenue.

The local economy is starting to stabilize and show some recovery. Customers are regaining confidence in the economy and are looking to take out loans again. Major employers in the area include paper mills, hospitals, and school districts. The area has not gained or lost any large employers in recent years. As of November 2015, the unemployment rate was 4.7 percent in Dickinson County, 5.9 percent in Iron County, 4.6 percent in Menominee County, 6.6 percent in Florence County, and 5.2 percent in Marinette County. This compares to 4.2 percent statewide unemployment rates in both Michigan and Wisconsin.

In assessing the bank's CRA performance, we contacted a member of the local board of the United Way to determine the community's profile and the performance of local financial institutions. The contact stated that local financial institutions are meeting the credit needs of the community.

Competition in the area is relatively strong. The bank's competitors include branches of multi-state banks and other community banks, as well as several credit unions and mortgage companies. In total deposits, FNB Iron Mountain has a market share of 15 percent, ranking second out of all FDIC-insured institutions. This is using FDIC market share data as of June 30, 2015. The balance of the market share is divided among 19 other FDIC-insured institutions with market shares ranging from a high of 17 percent down to a low of 0.54 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

The bank's LTD ratio is reasonable given the bank's size, financial condition, and the credit needs of the community. The bank's quarterly LTD ratio averaged 67.77 percent over the 26 quarters from September 30, 2009 to December 31, 2015. The bank ranks sixth in a peer group which includes eight other similarly situated banks, with peer bank LTD ratios ranging from 58.37 percent to 89.01 percent in the specified time period.

The banks in this peer group have total assets ranging from \$70 million to \$465 million, with the bank being the second largest in this group with total assets of \$319 million.

Lending in Assessment Area

The bank originates a substantial majority of its loans to borrowers and businesses within its AA. A random sample of the bank's primary loan products shows that 90.0 percent of total loans by number and 87.07 percent of total loans by dollar amount were originated within the AA.

Lending in Assessment Area										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
RE - Home Purchase	14	87.50%	2	12.50%	16	\$813	79.32%	\$212	20.68%	\$1,025
RE - Home Refinance	13	92.86%	1	7.14%	14	\$583	93.43%	\$41	6.57%	\$624
Commercial Loans	27	90.00%	3	10.00%	30	\$1,595	89.31%	\$191	10.69%	\$1,786
Totals	54	90.00%	6	10.00%	60	\$2,991	87.07%	\$444	12.93%	\$3,435

Source: Sample of 60 bank records from 2014 and 2015 (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. The random sample for this review included the bank's primary loan products, which are residential real estate loans and commercial loans.

The bank's borrower distribution of residential real estate loans from 2014 to 2015 within the AA shows reasonable penetration. The bank is slightly lower than the area demographic for low-income, but slightly higher than the area demographic for moderate-income borrowers. The bank made 18.52 percent of home mortgage loans to low-income borrowers and 22.22 percent of home mortgage loans to moderate-income borrowers. The area demographics show that 19.71 percent of families are low-income and 21.06 percent of families are moderate-income borrowers.

Borrower Distribution of Residential Real Estate Loans in AA									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	% of Number of Loans
% of Total	19.71%	18.52%	21.06%	22.22%	24.17%	18.52%	35.06%	37.04%	3.70%

Source: Sample of 27 bank records from 2014 and 2015 (verified by examiners) and U.S. Census Demographic Data.

The bank’s borrower distribution to businesses within the AA from 2014 to 2015 shows excellent penetration. Businesses within the AA with annual revenues less than or equal to \$1 million represent 74.48 percent of total businesses. The bank’s loan originations exceed the demographic data, originating 81.48 percent by number and 81.68 percent by dollar amount of its total commercial loans to small businesses within the AA with annual revenues less than or equal to \$1 million.

Borrower Distribution to Businesses in Assessment Area				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	74.48%	5.84%	19.68%	100.00%
% of Bank Loans in AA by #	81.48%	18.52%	0.00%	100.00%
% of Bank Loans in AA by \$	81.68%	18.32%	0.00%	100.00%

Source: Sample of 27 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic Data.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the bank’s AA. The random sample for this review included the bank’s primary loan products, which are residential real estate loans and commercial loans.

Based on 2014 and 2015 data, the geographic distribution of residential real estate loans within the bank’s AA reflects excellent dispersion. The random loan sample shows that 14.81 percent of the bank’s loans are located in moderate-income CTs. This exceeds the demographic data, which shows that 13.57 percent of the AA’s owner-occupied housing is located in moderate-income CTs.

Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
% of Real Estate Loans	0.00%	0.00%	13.57%	14.81%	77.60%	74.07%	8.83%	11.12%

Source: Sample of 27 bank records from 2014 and 2015 (verified by examiners) and U.S. Census Demographic Data.

The geographic distribution of commercial loans for 2014 and 2015 within the bank’s AA reflects reasonable dispersion. The random loan sample shows that 7.41 percent of the bank’s loans to small businesses are located in moderate-income CTs. This is less than the demographic data, which shows that 11.66 percent of the AA’s businesses are located in moderate-income CTs. Although below the demographic average, we found the percent of business lending in moderate-income census tracts reasonable due to the level of competition and limited commercial growth in the area. Also, the percentage of loans to small businesses in moderate-income CTs has increased since our last CRA Performance Evaluation.

Geographic Distribution of Commercial Loans in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
% of Total	0.00%	0.00%	11.66%	7.41%	81.58%	70.37%	6.76%	22.22%

Source: Sample of 27 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic Data.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test is rated Outstanding. Community development performance through community development loans, qualified investments, and services demonstrates excellent responsiveness to community development needs in the assessment area.

Number and Amount of Community Development Loans

The bank has an excellent level of community development loans.

The bank made 18 community development loans, totaling \$3.42 million, including:

- Four loans to Habitat for Humanity to fund the construction and/or renovation of housing for low to moderate-income individuals totaling \$316 thousand.
- Two loans were funded for \$600 thousand to finance construction of a facility whose primary function is to serve as a soup kitchen. The soup kitchen provides free meals to the community.
- Two loans were funded to separate assisted living and adult foster care entities that provide care to mentally challenged individuals. Reduced or no fee care is offered to low to moderate-income patients.
- Ten to fund various housing projects intended to provide housing for low to moderate income individuals.

In addition, the bank offers Small Business Administration (SBA) loans in the assessment area for businesses that may not qualify for conventional loan terms. Under the SBA program, the bank originated 30 small business loans totaling \$24.4 million.

The bank also offers the Rural Development U.S. Department of Agriculture (USDA) guaranteed loans. This program offers financing intended to improve, develop, or finance business, industry, and employment, as well as some mortgage programs, for

low to moderate-income individuals in rural communities. The bank made 269 of these loans totaling \$21.7 million.

Number and Amount of Qualified Investments

The level of qualified community development investments is excellent.

The primary qualified investments provided by the bank were grants for down payment assistance through Federal Home Loan Bank loan programs. These grants are available to homebuyers that meet the income qualifications to be considered low to moderate income. The bank provided 234 of these grants totaling \$2.0 million.

The bank's qualified investments included donations to 9 organizations totaling \$2,650. These donations supported social services, job skills training for low- and moderate-income individuals, small business development, and affordable housing.

Extent to Which the Bank Provides Community Development Services

The bank provides an excellent level of community development services through its branches, products, and activities with local organizations that support many undertakings directly benefiting low- and moderate-income individuals. The bank offers a full range of consumer and commercial banking products and services at all branches.

Bank employees are also involved in a variety of community development services that reflect excellent responsiveness to the communities' needs. Many of the bank's employees are involved with organizations that promote economic development or provide services for low- and moderate-income individuals.

Although not a comprehensive list, some of the community development services include:

Multiple bank employees go to local schools and provide financial management training. This includes topics such as getting financing, money management and investment, and credit management.

One employee serves as a director and is responsible for managing grants for an organization that provides free dental care for low to moderate-income individuals who can't afford it.

One employee is a member of a community group that manages a lending fund that is provided to businesses that employ low to moderate income individuals.

One employee is a director and provides financial management assistance to an organization that provides grants to local programs such as Habitat for Humanity, local domestic abuse shelters, and other similar programs.

Responsiveness to Community Development Needs

The bank's performance in this area, with consideration given to available opportunities, reflects excellent responsiveness to community needs.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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

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