



PUBLIC DISCLOSURE

July 24, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Thumb National Bank and Trust Company
Charter Number 15817

7254 Michigan Avenue
Pigeon, MI 48755-0000

Office of the Comptroller of the Currency

200 Public Square Suite 1610
Cleveland, OH 44114-2301

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

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

The major factors supporting the institution's rating are:

- The distribution of loans to borrowers of different incomes, as well as to businesses and farms of different sizes is reasonable. In both instances, this meets the standards of satisfactory performance.
- The geographic distribution of loans is reasonable and meets the standards for satisfactory performance.
- A majority of the bank's lending activity is inside its Assessment Areas and thus meets the standards of satisfactory performance.
- The loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance.

SCOPE OF EXAMINATION

We evaluated Thumb National Bank and Trust Company (TNB&T) using small bank Community Reinvestment Act (CRA) procedures. The evaluation covers lending and community development information for the period from January 1, 2012 through December 31, 2014. The institutions prior CRA examination used lending information from the period of January 1, 2007 through December 31, 2009. The bank was rated Satisfactory at the last performance evaluation dated April 26, 2010.

We evaluated the bank's performance in meeting the credit needs of its assessment areas (AAs) based on the lending test. TNB&T had two AAs for review at this performance evaluation. See the **Description of Assessment Area** for additional information. The bank did not have any community development activities during the evaluation period. The bank's primary lending products are farm loans, commercial loans, and home mortgage loans. Analysis of commercial and farm loan activity is based on a sample of 30 loans for each type of activity. The bank does not have a focus on consumer or home improvement loans, so these loans were not considered. Thumb National Bank is subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). We analyzed home mortgage loan data using HMDA – Loan Application Registers (HMDA-LAR) for 2012, 2013, and 2014. Mortgage loan data was tested prior to this review and found to be reliable for the purposes of our analysis. Conclusions on the bank's performance are primarily based on our full-scope review of the Huron AA. We placed more weight on the performance in the Huron AA as it contains the bank's main headquarters, the majority of the bank's branch locations, and a substantial majority of its lending and deposit activity. The Bay County AA received a limited scope review.

Information from members of the local community was considered as well. We contacted two local affordable housing community organizations.

DESCRIPTION OF INSTITUTION

TNB&T is a full service community bank headquartered in Pigeon, Michigan. As of December 31, 2014, the bank reported total assets of \$217 million compared to \$215 million as of December 31, 2013. TNB&T is a wholly owned subsidiary of Thumb National Bank & Trust Company Employee Stock Ownership Plan Trust, a one-bank holding company also headquartered in Pigeon. The bank consists of four full service branches and the main office.

TNB&T offers a broad range of loan products including home mortgage, consumer, commercial and farm loans. TNB&T is active in meeting the credit needs of the farming community, as this is a major economic driver in the area and source of employment in both AAs. The bank also offers a wide range of deposit products, along with online banking, mobile banking, and trust services. The bank's primary products are home mortgage, commercial and farm loans.

As of December 31, 2014, the bank's loan portfolio was comprised primarily of farm loans (49 percent) commercial loans (32 percent) and residential real estate-secured loans (17 percent). TNB&T operates five full-service branches and maintains seven ATM locations within its two AAs. Three branches (including the main office), which operate in the Huron County AA, offer full banking services Monday through Friday and Drive-thru only hours on Saturdays. TNB&T also has two branch locations in Bay County, with both branches operating Monday through Friday and one location offering Drive-thru only hours on Saturday. No offices were opened or closed during the evaluation period.

There are no legal, financial, or other factors impeding the bank’s ability to help meet the credit needs of the communities it serves. The previous CRA performance evaluation dated April 26, 2010 resulted in a rating of “Satisfactory.”

DESCRIPTION OF ASSESSMENT AREA(S)

TNB&T has two AAs. The Huron AA has 11 tracts that include portions of Huron, Sanilac, and Tuscola Counties, which are all in non-metropolitan statistical area (MSA) areas. Based on 2010 US Census data, all tracts in this AA are middle income and the majority of bank branches and lending to the community is within this AA.

The Bay County AA consists of 22 tracts within the Bay City MSA. This AA is comprised of moderate-, middle-, and upper-income tracts. Both AAs are consistent with the requirements of the regulation. See the accompanying table for demographic information on the Huron AA, which received a full scope review.

Huron AA

Table 1 Demographic Information for Huron AA 2014					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	11	0.00	0.00	100.00	0.00
Population by Geography	34,209	0.00	0.00	100.00	0.00
Owner-Occupied Housing by Geography	11,952	0.00	0.00	100.00	0.00
Businesses by Geography	1,999	0.00	0.00	100.00	0.00
Farms by Geography	586	0.00	0.00	100.00	0.00
Family Distribution by Income Level	9,630	19.41%	18.18%	24.35%	38.06%
Census Median Family Income (MFI)		\$51,187	Median Housing Value		\$113,544
FFIEC Estimated 2014 MFI		\$53,900	Families Below the Poverty Level		12.28%
Unemployment Rate – Seasonal Unadjusted December 2014					6.3%

Source: 2010 U.S. Census, 2014 FFIEC updated MFI, and 2014 U.S. Bureau of Labor Statistics.

The Counties of Huron, Sanilac, and Tuscola are primarily rural and agricultural in nature. Agriculture provides a significant economic base for this three county area, as the majority of land is used for farming. This area is a major supplier of beans and sugar beets and provides cattle, poultry, hogs, wheat, potatoes, dairy products, and corn. This three county area also offers health care, manufacturing and service related jobs. Some of the major employers in Huron, Sanilac and Tuscola Counties are illustrated below:

COUNTY	MAJOR EMPLOYERS
Huron	Tower Automotive-Elkton, Huron Casting Inc., Gemini Plastics, Thumb Tool & Engineering, Scheurer Hospital, Huron Medical Center, the Co-Op Elevator Company, and Michigan Sugar Company
Sanilac	Trelleborg Automotive, Huron Inc., Midwest Rubber Company, and the Marlette Community Hospital
Tuscola	Walbro, Grade-Vassar Foundry Inc., Caro Regional Center

There are 16 financial institutions serving the Counties of Huron, Sanilac, and Tuscola based on a June 30, 2014 Federal Deposit Insurance Corporation (FDIC) deposit market share report. There are three regional banks and seven community banks operating 64 offices. TNB&T ranks sixth with approximately eight percent of the insured deposit market. The number of financial institutions in the AA provides a competitive banking environment.

Economic conditions in this AA have shown an improvement since the prior performance evaluation. Some major employers are tied to the automotive industry, which has stabilized and grown since the prior review period. Tower Automotive is a growing company and is a top tier auto supplier. Huron Castings relies heavily on the Caterpillar Company for large equipment castings. As a result, any issues faced at Caterpillar, affect Huron Castings and their subsidiaries.

The unadjusted unemployment rate as of December 2014 for Huron County was 5.3 percent, Sanilac County was 6.4 percent, and Tuscola County was 6.4 percent. These unemployment rates are in line with the State of Michigan unadjusted unemployment rate of 5.6 percent.

We determined the community’s credit needs by contacting a representative from an affordable housing organization. Opportunities for participation by the institution include:

- Adding a banker on their Board, as well as general operating support
- Homebuyer counseling
- Matching funds for Individual Development Accounts (IDAs)

We also contacted a representative from an affordable housing agency. Credit and non-credit needs of the community include:

- Provide general operating support and funding for home ownership counselors
- Board membership with the agency

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Performance under the lending test is Satisfactory. This conclusion is based primarily on performance within the Huron AA, as this is the AA where the bank has a majority of its branches and deposits. The borrower distribution test received more weight than the geographic distribution test because there are no low- or moderate-income census tracts within the Huron AA.

Loan-to-Deposit Ratio

The bank's net loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance given the bank's size, financial condition, and the credit needs of the bank's AAs. The bank's average quarterly loan-to-deposit ratio over the 20 quarters ending December 31, 2014 is 77.79 percent, which exceeds the peer group average LTD ratio of 71.14 percent.

Lending in Assessment Area

Table 2 details TNB&T's aggregate lending in its combined Huron and Bay County AAs by number of loan originations and dollar volume during the evaluation period.

TNB&T's record of lending in its AAs is reasonable and meets the standards for satisfactory performance. A majority of lending activity has occurred inside the bank's AAs. As reflected in Table 2, approximately 73 percent of the number of loans and 75 percent of dollars of loans originated during the evaluation period are located within the bank's AAs. We based these percentages on all home mortgage activity and a sample of business and farm loans originated by the bank during the evaluation period.

Table 2 Lending in TNB&T's Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	359	72.53	136	27.47	495	42,353	68.73	19,268	31.27	61,621
Business	22	73.33	8	26.66	30	36,012	85.99	5,867	14.01	41,879
Farming	22	73.33	8	26.66	30	2,392	51.76	2,229	48.24	4,621
Totals	403	72.61	152	27.39	555	80,757	74.69	27,364	25.31	108,121

Source: Reported HMDA Data and initial samples of 30 business loans & 30 farm loans.

Lending to Borrowers of Different Income Levels and Businesses and Farms of Different Sizes

The borrower distribution of loans reflects excellent penetration among borrowers of different incomes and businesses and farms of different sizes. Conclusions are based on loan originations and purchases made during the evaluation period.

Huron AA

The overall borrower distribution of loans is excellent in the Huron AA.

Refer to Table 3 for the primary data used to assess the borrower distribution of home mortgage lending in the Huron AA. The bank's percentage of lending to moderate-income borrowers exceeded the percentage of moderate-income families within the AA. Bank lending to low-income borrowers was significantly below the percentage of low-income families, however, this is considered reasonable, as home ownership is difficult for the twelve percent of families living below the poverty level.

Table 3 Borrower Distribution of Home Mortgage Loans in Huron AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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 Purchase	19.41	7.45	18.18	28.72	24.35	14.89	38.06	48.94
Home Improvement	19.41	13.33	18.18	33.33	24.35	13.33	38.06	40.00
Home Refinance	19.41	12.02	18.18	18.03	24.35	24.39	38.06	45.36

Combined Home Mortgage Lending	19.41	10.62	18.18	22.26	24.35	20.89	38.06	46.23
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Source: Data reported under HMDA; 2010 U.S. Census data.

Table 4 shows the distribution of bank lending to businesses and farms of different sizes in the Huron AA.

Table 4 Distribution of Loans to Businesses & Farms of Different Sizes in Huron AA				
Size of Business	GAR ≤ \$1MM		GAR > \$1MM	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Business	75.64	92.86	4.60	7.14
Farming	98.63	100.00	1.02	0.00
Combined	80.85	97.06	3.79	2.94

Source: Sample results; 2014 Dun & Bradstreet business & farm data. GAR=Gross Annual Revenues.

The distribution of business loans reflects excellent penetration among businesses of different sizes. Ninety three percent of all loans to businesses were made to businesses with gross annual revenues of less than \$1 million, exceeding the percentage of small businesses within the AA.

The distribution of farm loans also reflects excellent penetration among farms of different sizes. All sampled farm loans were made to farms with gross annual revenues of less than \$1 million, exceeding the percentage of small farms within the AA.

Bay County AA

Bank performance in the limited scope Bay County AA was weaker than bank performance in the full scope AA. The percentage of home purchase and refinance loans made to moderate-income borrowers was lower than the percentage of both low- and moderate-income families in the AA. Home improvement lending was not considered in this analysis as the volume of home improvement loans originated in the Bay County AA during the review period was not sufficient for meaningful analysis.

Table 5 Borrower Distribution of Home Mortgage Loans in Bay County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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 Purchase	19.47	5.56	18.64	22.22	23.69	22.22	38.20	38.89
Home Improvement	19.47	0.00	18.64	0.00	23.69	100.00	38.20	0.00
Home Refinance	19.47	7.69	18.64	7.69	23.69	12.82	38.20	64.10
Total	19.47	6.90	18.64	12.07	23.69	17.24	38.20	55.17

Source: 2010 US Census data. Bank reported HMDA data. 11.11 and 7.69 percent of home purchase and home refinance loans reported as NA.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion among geographies of different income levels and meets the standards of satisfactory performance. We based this conclusion on performance from the Bay County AA only, as the Huron AA has no low- or moderate-income census tracts, and geographic distribution analysis is not meaningful for that AA.

Home Mortgage Lending – Bay County AA

The geographic distribution of loans reflects reasonable dispersion among geographies of different income levels and lending in most tracts of the AA. For our conclusions, we placed more weight on moderate-income performance, as there is only one low-income geography within the AA. Consideration is also given to the fact that more than three quarters of owner-occupied homes are in the middle-income census tracts as noted in the **Description of Assessment Areas** section. Distribution of home improvement lending was not performed in this AA, as the volume of home improvement lending was insufficient for meaningful analysis. Refer to Table 6 below for the primary data used to assess the geographic distribution of home mortgage lending.

Table 6 Geographic Distribution of Home Mortgage Loans in Bay County 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 Purchase	0.98	0.00	11.85	16.67	78.85	72.22	8.32	11.11
Home Refinance	0.98	0.00	11.85	5.13	78.85	82.05	8.32	12.82
Combined Home Mortgage	0.98	0.00	11.85	8.62	78.85	79.31	8.32	12.07

Source: Data reported under HMDA; 2010 U.S. Census data.

The distribution of home purchase and home refinance loans reflects a reasonable dispersion among census tracts of different income levels. Although there was no bank lending in low-income geographies, there are very limited opportunities due to an owner occupied housing percentage of less than one percent of the 684 total housing units in low-income census tracts. The percentage of home mortgage loans made in moderate-income areas is also below the percentage of owner-occupied housing units located in the moderate-income portions of the AA. Home purchase lending exceeded the percentage of moderate-income families while home refinance lending was significantly below the percentage of owner occupied housing units.

Business and Farm Lending – Bay County AA

The dispersion of small business and small farm loans among census tracts of different income levels is reasonable. Although no loans were made in low-income geographies, there were very limited lending opportunities as only 66 small businesses and 2 small farms were in low-income geographies. Lending percentages in moderate-income areas are below the percentages of businesses and farms located in those segments of the AA. In evaluating the bank’s farm lending in moderate-income geographies we considered the fact that only 15 small farms were located in moderate-income census tracts.

Table 7 Geographic Distribution of Small Business and Small Farm Loans in Bay County AA								
CT Inc. level	Low		Moderate		Middle		Upper	
	% small business	% of number of loans	% small business	% of number of loans	% small business	% of number of loans	% small business	% of number of loans
	1.75	0.00	19.43	12.50	72.81	75.00	6.02	0.00
	% small farms							
	0.67	0.00	5.35	0.00	83.95	100.00	10.03	0.00
	% combined							
	1.69	0.00	18.64	10.00	73.43	80.00	6.24	10.00

Responses to Complaints

TNB&T did not receive any written complaints during the evaluation period regarding its performance in meeting the credit and deposit needs of its AAs.

Fair Lending or Other Illegal Credit Practices Review

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