

PUBLIC DISCLOSURE

May 2, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Charlevoix State Bank
Certificate Number: 33926

111 State Street
Charlevoix, Michigan 49720

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office

300 South Riverside Plaza, Suite 1700
Chicago, Illinois 60606

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.

TABLE OF CONTENTS

INSTITUTION RATING	1
DESCRIPTION OF INSTITUTION	1
DESCRIPTION OF ASSESSMENT AREA.....	2
SCOPE OF EVALUATION.....	5
CONCLUSIONS ON PERFORMANCE CRITERIA.....	6
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	8
APPENDICES	9
SMALL BANK PERFORMANCE CRITERIA.....	9
GLOSSARY.....	10

INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The bank's satisfactory performance under the Lending Test supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio (LTD) is reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- The bank granted a majority of its home mortgage and small business loans within the AA.
- The AA does not include any low- and moderate-income geographies; therefore, a review of the Geographic Distribution criterion would not result in meaningful conclusions.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among borrowers of different income levels and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

DESCRIPTION OF INSTITUTION

Charlevoix State Bank (CSB) is a community bank headquartered in Charlevoix, Michigan (Charlevoix County) in the northern part of the lower peninsula of Michigan. CSB is a wholly owned subsidiary of Charlevoix First Corporation, a one bank holding company also headquartered in Charlevoix. The bank received a Satisfactory CRA rating at its previous FDIC Performance Evaluation, dated July 29, 2019, based on Interagency Small Institution Examination Procedures.

In addition to its main office, CSB operates four full service branches, three located in Charlevoix County and one in Antrim County. The bank also operates one limited service, detached drive-thru facility located in Charlevoix County. The bank offers traditional loan products including residential, commercial, and consumer loans, primarily focusing on residential and commercial loans. Deposit products include checking, savings, money market, health savings, and individual retirement accounts, and certificates of deposit. Alternative banking services include online banking with bill pay, mobile banking, telephone banking, and automated teller machines. CSB did not open or close any office locations since the previous evaluation.

During the review period, CSB participated in the Small Business Administration's Paycheck Protection Program (PPP), which provided loans to businesses during the COVID-19 Pandemic to cover wages and other operating expenses. In 2020, the bank originated 266 PPP loans totaling \$18.1million. In 2021, the bank originated 189 PPP loans totaling \$11.3 million.

Bank assets totaled \$312.9 million as of December 31, 2021, including loans of \$114.6 million and securities of \$142.8 million. As of that same date, deposits totaled \$289.7 million. The loan portfolio composition is relatively consistent with the prior evaluation. Since the previous evaluation, total loans increased \$6.1 million, deposits increased \$121.0 million, and total investments increased \$101.0 million. The following table illustrates the loan portfolio composition.

Loan Portfolio Distribution as of 12/31/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	12,426	10.8
Secured by Farmland	115	0.1
Secured by 1-4 Family Residential Properties	47,441	41.4
Secured by Multifamily (5 or more) Residential Properties	2,301	2.0
Secured by Nonfarm Nonresidential Properties	32,593	28.5
Total Real Estate Loans	94,876	82.8
Commercial and Industrial Loans	12,625	11.0
Agricultural Production and Other Loans to Farmers	49	0.0
Consumer Loans	5,938	5.2
Obligations of State and Political Subdivisions in the U.S.	873	0.8
Other Loans	221	0.2
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	114,582	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial constraints or legal impediments that would preclude the bank from reasonably meeting the credit needs of the AA.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to designate one or more AAs within which examiners will evaluate its CRA performance. CSB maintains one AA comprised of 12 census tracts in Charlevoix County, Michigan and 1 contiguous census tract in Antrim County, Michigan. The census tracts comprising the AA are not part of a Metropolitan Statistical Area (MSA). The AA conforms to the requirements of the CRA regulation, does not arbitrarily exclude low- and moderate-income geographies, and does not reflect illegal discrimination. The AA remains unchanged since the prior evaluation.

Economic and Demographic Data

The AA is comprised of 9 middle-income and 4 upper-income tracts. The income designations of the tracts are unchanged since the previous evaluation. While the AA does not contain any low- or moderate-income census tracts, in both 2020 and 2021, the FFIEC designated 9 of the 12 middle-

income tracts located in Charlevoix County as underserved. The following table shows select demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	13	0.0	0.0	69.2	30.8	0.0
Population by Geography	26,907	0.0	0.0	65.3	34.7	0.0
Housing Units by Geography	18,320	0.0	0.0	60.2	39.8	0.0
Owner-Occupied Units by Geography	9,011	0.0	0.0	61.3	38.7	0.0
Occupied Rental Units by Geography	2,190	0.0	0.0	82.5	17.5	0.0
Vacant Units by Geography	7,119	0.0	0.0	52.1	47.9	0.0
Businesses by Geography	2,396	0.0	0.0	68.0	32.0	0.0
Farms by Geography	123	0.0	0.0	56.9	43.1	0.0
Family Distribution by Income Level	7,398	15.9	15.9	21.4	46.8	0.0
Household Distribution by Income Level	11,201	19.7	17.5	17.2	45.6	0.0
Median Family Income Non-MSAs - MI		\$53,628	Median Housing Value			\$159,331
			Median Gross Rent			\$672
			Families Below Poverty Level			8.2%
<i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to the 2015 ACS data, there are 18,320 housing units within the AA. Of these, 49.2 percent are owner occupied, 12.0 percent are rental units, and 38.9 percent are vacant.

The retail and service industries dominate the tourist economy in the AA. Major employers include Boyne USA Inc., a recreation resort, East Jordan Ironworks, Inc., and Munson Healthcare Charlevoix Hospital. Tourism is a major source of employment and income. D&B data from 2020 shows the largest industries are: services (40.7 percent); retail (12.9 percent); non-classifiable establishments (13.1 percent); and construction (7.3 percent). Many employment opportunities within the AA include seasonal jobs in accommodation and food service.

Unemployment data obtained from the U.S. Bureau of Labor and Statistics shows that unemployment levels in the AA generally exceed state and national averages. Like most of the country, unemployment rates in Charlevoix County experienced a sharp increase in 2020 due to the COVID-19 Pandemic. As shown in the following table, unemployment rates have since declined, but have not decreased to pre-pandemic levels in Charlevoix County.

Unemployment Rates				
Area	2019	2020	2021	February 2022
	%	%	%	%
Charlevoix County	4.6	9.8	8.2	6.3
State	4.1	10.0	5.9	5.3
National Average	3.7	8.1	5.3	3.8

Source: Bureau of Labor Statistics

Examiners used the FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the low-, moderate-, middle-, and upper-income categories for the AA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
MI NA Median Family Income (99999)				
2021 (\$62,900)	<\$31,450	\$31,450 to <\$50,320	\$50,320 to <\$75,480	≥\$75,480

Source: FFIEC

Competition

The bank operates in a moderately competitive environment for financial services. According to FDIC Deposit Market Share data as of June 30, 2021, three FDIC-insured financial institutions operate eleven offices in the AA, with \$532.8 million in deposits. Of these institutions, CSB is the only bank headquartered in the AA and ranked first in market share, with 48.3 percent of total deposits. CSB faces additional competition from numerous credit unions and other financial service entities conducting business within the AA.

There is a high level of competition in the AA for home mortgage lending from mortgage companies, credit unions, and regional and national banks. CSB is not required to collect or report data under the Home Mortgage Disclosure Act (HMDA). Therefore, analysis of home mortgage loans does not include comparison to aggregate data. However, aggregate data is nonetheless useful in determining the level of demand for home mortgage loans. In 2020, the most recent year available, 216 lenders originated or purchased 2,098 home mortgage loans in the AA. The top three lenders accounted for 35.0 percent of the market share.

There is a moderate level of competition in the AA for small business lending from large, national banks with a niche in credit card lending. CSB is not required to collect or report small business loan data. As such, analysis of small business loans does not include comparisons to aggregate data. However, aggregate data is useful in identifying the level of demand for such loans. In 2020, the most recent year available, 42 lenders originated or purchased 359 small business loans in the AA. The top four lenders accounted for 54.1 percent of the market share.

Community Contact

Examiners contacted an economic development organization operating within Charlevoix and Antrim Counties. The organization provides support for growth, expansion, and attraction of businesses, as well as job creation and retention. The contact noted that the COVID-19 pandemic negatively affected the local economy, but that economic conditions are improving with support by the tourism industry. The area has a significant seasonal population, and the hospitality and retail industries have significant labor shortages.

The contact stated that housing prices are elevated as inventory has shifted from owner occupied to second homes and short term rentals. As a result, local residents find it difficult to secure affordable housing, especially on hospitality and service industry wages. The contact stated that increased financial institution participation in USDA and RD programs would enhance credit availability.

The contact additionally identified a need for small business working capital and revolving credit, as well as loans for small tech sector business startups.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that opportunities exist for home mortgage programs as well as loans for small businesses.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation as of July 29, 2019, to the current evaluation dated May 2, 2022. Examiners used the Interagency Small Institution Examination procedures to evaluate CSB's CRA performance. The first Appendix discusses small bank performance criteria.

Activities Reviewed

Examiners reviewed small business and home mortgage products for this evaluation, as they represent the bank's primary product lines. This conclusion considered the number and dollar volume of loans originated during the evaluation period, the composition of the bank's loan portfolio, and the bank's business strategy. Examiners did not consider small farm or consumer loans, as they are not a major product lines and did not represent a significant portion of the bank's originations or loan portfolio during the evaluation period. The bank's record of originating small business and home mortgage loans received equal weight and consideration in the overall conclusions, based upon the number and dollar volume of loans originated and portfolio composition.

Bank records indicate that the lending focus and product mix remained consistent throughout the

evaluation period. Therefore, examiners evaluated only the most recent full year's data (2021) for both home mortgage and small business loans.

Examiners used bank records to identify the universe of home mortgage and small business loan originations. In 2021, CSB originated 228 home mortgage loans totaling \$36.3 million and 317 small business loans totaling \$27.7 million.

Examiners compared home mortgage lending performance to demographic data obtained from the 2015 ACS. D&B data for 2021 provided a standard of comparison for the small business loans. While this evaluation includes the number and dollar volume of loans, examiners emphasized performance by number of loans as it is a better indicator of the number of individuals and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Overall, CSB's performance reflects reasonable responsiveness to the credit needs of the credit needs within the AA. As noted earlier, the AA does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, examiners did not evaluate this criterion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable considering the institution's size, financial condition, and AA credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 54.2 percent over the past 10 calendar quarters since the prior performance evaluation. This is a decrease from the prior evaluation where the LTD ratio averaged 63.3 percent. The ratio ranged from a high of 67.7 at June 3, 2020, to a low of 39.0 at December 31, 2021.

The ratio began declining in 2020 when the bank experienced an influx of deposits associated with the COVID-19 stimulus packages. The institution's deposit growth during this period was 56.2 percent, which outpaced the net loan growth of 0.9 percent. CSB's experience with deposit growth outpacing loan growth during the evaluation period resulted from the COVID-19 pandemic and its economic effects and was consistent with that experienced by the three comparable institutions.

As shown in the following table, the bank's LTD ratio is lower, but generally comparable to the similarly-situated institutions chosen based on size, product offerings, and market characteristics.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/2021 \$(000s)	Average Net LTD Ratio (%)
Charlevoix State Bank	312,876	54.17
Similarly-Situated Institution #1	401,733	60.56
Similarly Situated Institution #2	292,309	67.14
<i>Source: Reports of Income and Condition 09/30/2019 through 12/31/2021</i>		

Assessment Area Concentration

As shown in the following table, CSB originated a majority of its home mortgage and small business loans within its AA based on both number and dollar volume.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	197	86.4	31	13.6	228	29,891	82.5	6,360	17.5	36,251
Small Business	271	85.5	46	14.5	317	24,136	87.1	3,577	12.9	27,713
Total	468	85.9	77	14.1	545	54,027	84.5	9,937	15.5	63,964
<i>Source: Bank Data</i>										

Borrower Profile

The distribution of borrowers reflects reasonable penetration among borrowers of different income levels and businesses of different sizes within the AA.

Home Mortgage Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels. The following table illustrates the distribution of lending by borrower income level within the AA.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	15.9	36	18.3	3,045	10.2
Moderate	15.9	45	22.8	4,949	16.6
Middle	21.4	34	17.3	4,630	15.5
Upper	46.8	82	41.6	17,267	57.8
Totals	100.0	197	100.0	29,981	100.0
<i>Source: 2015 ACS; Bank Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

Lending to low-income borrowers exceeded the percentage of low-income families. Further, this category contains families within the AA with incomes below the poverty level, which, according to the ACS data, represents 8.2 percent of all of the families within the AA. These families likely face difficulties qualifying for and/or servicing debts in amounts sufficient to purchase a home in the AA. Lending to moderate-income borrowers is well above the percentage of moderate-income families.

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses of different sizes. As shown in the following table, the bank’s performance is consistent with the percentage of businesses in the AA with gross annual revenues of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	85.6	230	84.9	17,185	71.2
>\$1,000,000	4.8	41	15.1	6,951	28.8
Revenue Not Available	9.7	0	0.0	0	0.0
Totals	100.0	271	100.0	24,136	100.0
<i>Source: 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

Response to Complaints

The bank did not receive any CRA-related complaints during the evaluation period; therefore, this criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank’s compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

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 area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan 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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

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 non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and 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 such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

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 area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties 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 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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.

Rated Area: A rated area is a state or multistate metropolitan area. 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 metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

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

Small Farm Loan: 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.