



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 03, 2010**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Capitol National Bank  
Charter Number 17525

200 Washington Square North  
Lansing, MI 48933-0000

Office of the Comptroller of the Currency

SPECIAL SUPERVISION Field Office  
One Independence Square 250 E Street, SW  
Washington, DC. 20219-0001

**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:

- Capitol National Bank's loan-to-deposit ratio exceeds the standard for satisfactory performance.
- The bank's record of lending in its assessment area is reasonable and meets the standard of satisfactory performance.
- The overall distribution of lending among borrowers of different incomes and businesses of different sizes is reasonable and meets the standard for satisfactory performance.
- The geographic distribution of home mortgage and business loans among geographies of different income levels is excellent and exceeds the standard for satisfactory performance.

**SCOPE OF EXAMINATION**

The evaluation period is from September 22, 2003 (date of previous evaluation) through June 3, 2010. We analyzed all home mortgage and small business loan activity from January 1, 2008, through December 31, 2009. These loan products are representative of the bank's business strategy since the last examination.

Capitol National Bank (CNB) has a single assessment area consisting of the entire Lansing-East Lansing, Michigan Metropolitan Statistical Area. Conclusions on the bank's performance are based on a full scope review of this area. See the **Description of the Assessment Area** section for additional details.

Information from members of the local community was considered. We contacted four community organizations involved in affordable housing and economic development initiatives. Refer to the **Description of the Assessment Area** section for additional details.

Due to changes in the Community Reinvestment Act regulation since the last evaluation, CNB's overall performance is now evaluated under the small bank assessment criteria. CNB was previously evaluated under Large Bank criteria due to holding company affiliation.

## DESCRIPTION OF INSTITUTION

Capital National Bank is a full service intrastate bank headquartered in Lansing, Michigan. As of December 31, 2009 the bank had total assets of \$200 million, loans of \$165 million, deposits of \$182 million, and Tier One capital of \$13 million. Table 1 reflects the composition of the bank's loan portfolio.

<b>Table 1 - Loan Distribution as 12/31/2009</b>	
<b>Loan Type</b>	<b>% of Loans</b>
Land & Construction	8.47
Commercial Real Estate	46.71
Residential Real Estate	15.51
Other Real Estate Loans	5.86
Commercial / Industrial	22.64
Consumer Loans	0.81
TOTAL	100.00

CNB offers a broad range of loan products including home mortgage, consumer and business loans. CNB is especially active in addressing credit needs of the business community. The bank also offers a wide range of deposit products along with online and telephone banking. Using generated loan origination reports for the evaluation period, we determined the bank's primary products are business and home mortgage loans.

CNB operates two full service branches in downtown Lansing and suburban Okemos. In addition, CNB operates two full service ATMs and two cash disbursement machines. The bank closed its Delta Township office in July 2009.

CNB is a wholly owned subsidiary of Capitol Bancorp Limited (CBL). CBL is a \$5 billion multi-bank holding company located in Lansing, Michigan. As of April 2010, CBL had 36 banks in 17 states. Furthermore, Amera Mortgage Corporation is a mortgage company subsidiary of CBL. CNB purchased residential mortgages from Amera Mortgage during the evaluation period.

The bank is operating under a regulatory agreement which limits its ability to lend to businesses and individuals within its AA.

The previous CRA examination was dated September 22, 2003 and resulted in a rating of "Satisfactory".

## DESCRIPTION OF ASSESSMENT AREA

CNB’s AA consists of the entire Lansing-East Lansing, Michigan MSA (29620). The MSA is comprised of Ingham, Eaton, and Clinton Counties in the central part of Michigan’s Lower Peninsula. The AA is a mix of urban, suburban, and rural neighborhoods. Lansing is Michigan’s capitol and Michigan State University is located in East Lansing. The AA is consistent with the requirements of the regulation. See Table 2 for demographic information.

Table 2 - Demographic Information for the Lansing-E Lansing, MI MSA 29620						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	117	7.69	21.37	49.57	19.66	1.71
Population by Geography	447,728	5.69	16.98	55.47	21.05	0.80
Owner-Occupied Housing by Geography	115,901	1.72	13.87	61.20	23.22	0.00
Businesses by Geography	35,045	4.42	17.38	52.03	23.95	2.22
Farms by Geography	1,658	0.72	6.27	76.90	16.04	0.06
Family Distribution by Income Level	110,774	18.99	18.70	23.64	38.67	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	41,750	6.58	24.60	56.54	12.27	0.00
Median Family Income = \$55,552 HUD Adjusted Median Family Income 2009 = \$67,000 Households Below the Poverty Level = 11%				Median Housing Value = \$107,179 Unemployment Rate (2009 unadjusted) = 10.8%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Sources: 2000 U.S. Census and 2009 HUD updated MFI.

Based on a June 30, 2009 Federal Deposit Insurance Corporation (FDIC) deposit market share report, there are 24 financial institutions serving the MSA. There are eight regional banks and sixteen community banks operating 126 offices. Not reflected in these numbers are a number of credit unions also operating in this AA. The number of financial institutions in the AA provides a competitive banking environment. CNB ranks eleventh with 4.54 percent of the insured deposit market.

The local area has been adversely impacted by stressed economic conditions. Local and statewide unemployment levels increased during the evaluation period. The average unadjusted unemployment rate for the Lansing-East Lansing MSA increased during the evaluation period from 5.8 percent in 2006 to 10.8 percent in 2009. Regardless, local unemployment rates were favorable in comparison to those for the state, which at times were the highest in the country. The statewide unadjusted unemployment average was 6.9 percent in 2006, and 13.6 percent in 2009. The favorable comparisons are largely due to industry diversification in the Lansing-East

Lansing area. Government service, education, healthcare, and automotive continue to be the primary industries in the region. According to the Lansing Regional Chamber of Commerce, the largest employers are the State of Michigan, Michigan State University, Sparrow Health Systems, and General Motors Corporation.

The community's credit needs were determined by contacting representatives from affordable housing and economic development organizations as well as conducting discussions with bank management. Credit and non-credit needs of the community include:

- Financial services targeted to the population of unbanked individuals
- Funding for homebuyer counseling and financial literacy programs
- Home construction loans and lines of credit
- Support for economic development groups, including acting as board members
- Support for consumer and commercial counseling programs, including acting as instructors and speakers.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Overall performance is Satisfactory. This conclusion is based on performance within the Lansing-East Lansing AA where the bank has its branches and deposits. The borrower and geographic distribution components regarding small business lending receive the most weight in our analysis as small business lending had the greatest activity volume.

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit ratio is more than reasonable and exceeds the standards for satisfactory performance given the bank's size, financial condition, and the credit needs of the bank's AA. The bank's average quarterly loan-to-deposit ratio over the 26 quarters ending December 31, 2009 is 92.76 percent. This was well above the 82.66 percent experienced by its national peer group of banks during the same period. It is also noted that CNB's loan-to-deposit ratio as of December 31, 2009 was 90.20 percent.

### **Lending in Assessment Area**

Table 3 details CNB's aggregate lending in its AA by number of loan originations and dollar volume during the evaluation period.

CNB's record of lending in its AA meets the standards for satisfactory performance. A majority of lending activity has occurred inside the bank's AA. Approximately 82 percent of the number and dollars of loans originated during the evaluation period were located within the bank's AA.

Table 3 - Lending in CNB's Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	38	71.70	15	28.30	53	4,876	68.00	2,295	32.00	7,171
Business	580	89.37	69	10.63	1,192	163,239	88.42	21,380	11.58	184,619
Farming	7	13.46	45	86.54	52	661	13.30	4,310	86.70	4,971
Totals	1,280	81.89	283	18.11	1,563	190,671	82.06	41,681	17.94	232,352

Source: Reported HMDA & Small Business Data.

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

The overall borrower distribution of loans is reasonable. This conclusion is based on poor penetration of home mortgage loans and reasonable penetration among loans to businesses of different sizes. As previously noted, small business lending performance received the greater weight due to the larger volume of activity.

#### Home Mortgage Lending

The distribution of home purchase, home improvement, and home refinance loans reflects poor penetration among borrowers of different income levels. Refer to Table 4 for the primary data used in our analysis. No home purchase loans were made to low- or moderate-income families in the AA. No home improvement loans were made to low-income borrowers, and the percentage of home improvement loans to moderate-income borrowers is below the percentage of moderate-income borrowers in the area. No home refinance loans were made to moderate-income borrowers, and the percentage of refinance loans made to low-income borrowers was well below the percentage of low-income families in the area.

In evaluating the borrower distribution of home mortgage loans, we considered the number of households that live below the poverty level and the barriers that this may have on home ownership. It is especially difficult for the segment of the low-income population that lives below the poverty line to afford and maintain a home. This has an impact on the opportunity to lend to the low-income population of the community. Refer to the **Description of Assessment Areas** section for demographic information including poverty rates.

Table 4 Borrower Distribution of Home Mortgage Loans in Lansing-E Lansing 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	18.99	0.00	18.70	0.00	23.64	14.29	38.67	71.43
Home Improvement	18.99	0.00	18.70	14.29	23.64	0.00	38.67	28.57
Home Refinance	18.99	8.33	18.70	0.00	23.64	8.33	38.67	58.33

Source: Data reported under HMDA; 2000 U.S. Census data. Income information was not reported for 14.29% of home purchases, 57.14% for home improvement, and 25.00% for home refinance loans.

Small Business Lending

The distribution of small business loans reflects reasonable penetration among businesses of different sizes. Refer to Table 5. The percentage of loans made to businesses with revenues less than \$1 million is near the percentage of area businesses with revenues below \$1 million.

<b>Table 5 - Distribution of Loans to Businesses of Different Sizes in Lansing-E Lansing AA</b>						
Size of Business	GAR <= \$1MM		GAR > \$1MM		GAR Not Reported	
Loan Type	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans
Business	76.96	71.55	4.07	28.45	18.97	0.00

Source: Reported small business loan data; 2009 Dun & Bradstreet business & farm data.  
GAR=Gross Annual Revenues

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion among geographies of different income levels and exceeds the standards of satisfactory performance. We based this conclusion on loan originations and purchases made during the evaluation period.

Home Mortgage Lending

The geographic distribution of home mortgage loans reflects excellent dispersion among geographies of different income levels and lending in most tracts of the AA. Refer to Table 6 for the primary data used to assess home mortgage lending performance.

The distribution of home purchase loans reflects a reasonable dispersion among census tracts of different income levels. Although no home purchase loans were made in low-income census tracts, the percentage of loans made in moderate-income areas exceeds the percentage of owner-occupied housing units located in the moderate-income portions of the AA.

The distribution of home improvement and home refinance loans reflects an excellent dispersion among census tracts of different income levels. For each of these two products, the percentages of loans made in low- income areas substantially exceeds the percentage of owner-occupied housing units in low-income portions of the AA. The percentages of loans made in moderate-income areas exceed the percentage of owner-occupied housing units located in the moderate-income portions of the AA.

Table 6 - Geographic Distribution of Residential Real Estate Loans in Lansing-E Lansing 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	1.72	0.00	13.87	14.29	61.20	57.14	23.22	28.57
Home Improvement	1.72	14.29	13.87	14.29	61.20	28.57	23.22	42.86
Home Refinance	1.72	12.50	13.87	16.67	61.20	45.83	23.22	25.00

Source: Data reported under HMDA; 2000 U.S. Census data.

### Small Business Lending

The dispersion of small business loans among census tracts of different income levels is excellent. The percentages of loans in both low- and moderate-income areas significantly exceed the percentages of businesses located in those segments of the AA. Refer to Table 7.

Table 7 Geographic Distribution of Loans to Businesses in Lansing-E Lansing AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Business	4.42	9.48	17.38	23.97	52.03	32.24	23.95	27.59

Source: Reported business loan data; 2009 Dun & Bradstreet business data.

### Responses to Complaints

CNB has not received any written complaints during the evaluation period regarding its performance meeting the credit and deposit needs of its AA.

### 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.