CBM™
Community Bankers of Michigan

Community Banks: Essential to Michigan Business Growth

As leaders in our communities, we are more familiar with the local communities we serve and can tailor services to our individual customers and borrowers. Many big, national banks have strict policies that are not as flexible and often use a "one-size-fits-all" approach in their decision-making.

We understand our communities and their unique challenges. We invest our customer deposits in the cities, villages and townships where we do business. For this reason, one of the advantages for more Michigan residents to use a locally owned and operated community bank is that they will be keeping the majority of their assets nearby, while helping to stimulate the local and Michigan economy.

Investment in the local community, more personalized service and greater customer satisfaction are just some of the reasons why many customers have turned to community banks for their banking needs in recent years.

However, community banks are facing a serious regulatory and compliance burden, profitability challenges in a low interest rate environment and continued consolidation.

Community Bank Challenges in Michigan

By 2000 the number of Michigan community banks declined to 195, from over 300 banks in 1990.

The principal concern to community bankers, community leaders, Michigan citizens, and our elected officials should be that as the number of community banks decline, we are losing the local control and decision making that can best determine Michigan's future direction through the growth of small business.

The five largest out-of-state banks control 57.13 percent of our Michigan banking deposits. Adding the next four largest out-of-state banks and that number increases to 67.67 percent. Citizens Bank, Flint will soon be controlled by a bank in Akron Ohio which further increases the percentage to 71.22. Further concern arises when you consider that the State of Michigan and the FDIC may make it more difficult to establish a new bank in Michigan. The impact upon growth, business and our and our economy will be felt for years to come.

The following illustrates the decline in the number of community banks over the past 10 years:

Michigan Bank Charters by Year

2002	177
2003	175
2004	170
2005	171
2006	168
2007	161
2008	156
2009	143
2010	133
2011	129
2012	123

Why Community Banks are Important to Michigan's Economy?

- **Community Banks originate 80 percent of all the Small Business Loans in the US.**
- **Community Banks are small businesses and understand the needs of small-business owners.**
- **Community Bankers understand local market conditions.**
- **Community Bank deposits are invested back into the community.**
- **Community Bank loan decisions are made locally; by local bank executives and board members.**
- **Community Bank small business loans will be generated from, and stay in community banks.**
- **Community Bankers focus attention on the needs of local families, businesses and farmers.**
- **Community Bankers are quick to support local charities and organizations.**

The close ties of community banks to our local economies are a source of our strength. Investment in local communities, more personalized service and greater satisfaction from customers are essential to the continued growth of Michigan's economy.

Michigan Cities, by Population and the Number of Bank Charters

City (10 largest)	Population	Number of Charters
Detroit	713,777	1
Grand Rapids	188,040	4
Warren	134,056	0
Sterling Heights	129,699	0
Lansing	114,297	1
Ann Arbor	113,934	5
Flint	102,434	0
Dearborn	98,153	1
Livonia	96,942	0
Clinton Township	96,796	0
Wayne County	1,820,584	2
Downriver Detroit	228,727	0
Southfield	71,739	2

Other Large Cities in Michigan

Battle Creek	52,347	0
Bay City	34,932	0
Bloomfield Township	41,070	0
Canton Township	90,173	0
Clinton Township	96,796	0
Jackson	33,534	0
Kentwood	48,707	0
Marquette	21,355	0
Plymouth Township	27,524	0
Pontiac	59,515	0
Port Huron	30,184	0
Rochester Hills	70,995	0
Royal Oak	57,236	0
Westland	84,094	0
Wyoming	72,125	0

Select Villages in Michigan with Michigan Bank Charters

Village	Population
Baldwin	1,208
Beulah	395
Brown City	1,325
Carsonville	459
Decatur	1,819
Ewen	Not available
Harbor Springs	1,194
Honor	328
Marcellus	1,198
Ontonagon	Not available
Port Austin	639
Schoolcraft	1,525
Stockbridge	1,218

Based on 2010 Census Data

Concentration of Michigan Banking Deposits
June 30, 2000

BANK	CHARTER LOCATION	6-30-00
Comerica Bank	Detroit, Michigan	15.41%
Bank One	Detroit, Michigan	14.50%
Old Kent Bank	Grand Rapids, Michigan	9.02%
Standard Federal Bank	Troy, Michigan	8.42%
Michigan National Bank	Farmington Hills, Michigan	7.05%
Citizens Bank*	Flint, Michigan	3.36%
Flagstar Bank	Troy, Michigan	2.82%
D & N Bank	Houghton, Michigan	1.05%
Republic Bank	Lansing, Michigan	1.04%
Sub-Total Michigan Banks (9)		**62.67%**
National City Bank	Bannockburn, Illinois	7.18%
Huntington National Bank	Columbus, Ohio	3.62%
Charter One Bank	Cleveland, Ohio	3.13%
TCF National Bank	Minneapolis, Minnesota	1.18%
Other Out of State Banks (5)	Various	.66%
Sub-Total Out of State Banks (9)		**15.77%**
Michigan Banks (189)		**21.56%**
TOTAL DEPOSITS		**$117,241,547,000**

*Citizens Bank announced its sale to First Merit Bank of Akron, Ohio

Source: Federal Deposit Insurance Corporation

Concentration of Michigan Banking Deposits**
June 30, 2011 and June 30, 2012

BANK	CHARTER LOCATION	6-30-11	6-30-12
JP Morgan Chase	Columbus Ohio	16.23%	17.51%
Comerica Bank	Dallas, Texas	13.80%	14.21%
PNC Bank	Wilmington, Delaware	9.55%	8.97%
Bank of America	Charlotte, North Carolina	9.06%	8.24%
Fifth Third Bank	Cincinnati, Ohio	8.29%	8.20%
Huntington National Bank	Columbus, Ohio	4.51%	4.71%
RBS Citizens	Providence, Rhode Island	2.95%	2.83%
Wells Fargo Bank	Sioux Falls, South Dakota	1.47%	1.60%
TCF National Bank	Sioux Falls, South Dakota	1.41%	1.40%
Sub-Total Out of State Banks (9)		67.27%	67.67%
Citizens Bank*	Flint, Michigan	3.82%	3.55%
Smaller Out of State Banks (20)		2.29%	2.36%
Sub-Total Out of State Banks (30)		**73.38%**	**73.58%**

BANK	CHARTER LOCATION	6-30-11	6-30-12
Flagstar Bank	Troy, Michigan	4.43%	5.46%
Chemical Bank	Midland, Michigan	2.70%	2.63%
Independent Bank	Ionia, Michigan	1.32%	1.32%
Sub-Total Large Michigan Banks (3) (over 1% market concentration)		**8.45%**	**9.40%**
Michigan Banks (118)		**18.17%**	**17.02%**
TOTAL DEPOSITS		**$157,683,542,000**	**$166,627,322,000**

*Citizens Bank announced its sale to First Merit Bank of Akron, Ohio
**Source: Federal Deposit Insurance Corporation

Michigan denovo Banks

1990 to Present   Banks highlighted in **bold** continue to operate in Michigan

1990	**Michigan Commerce Bank, Ann Arbor** Paragon Bank, Holland - merged
1991	**Founders Trust, Grand Rapids** Alliance Banking Company, New Buffalo - merged
1993	none
1994	**Charlevoix State Bank** Fidelity Bank, Dearborn – failed
1995	Grand Haven Bank - merged
1996	**Bank of Ann Arbor** **Crestmark Bank, Troy** Select Bank, Grand Rapids - merged Community Central Bank, Mt Clemens – failed Macomb Community Bank, Clinton Township - merged
1997	**Keystone Community Bank, Kalamazoo** **Macatawa Bank, Grand Rapids** **Mercantile Bank, Grand Rapids** Michigan Heritage Bank, Farmington Hills – failed Muskegon Commerce Bank – merged Brighton Commerce Bank - merged
1998	**Bank of Holland** **Clarkston State Bank** Paramount Bank, Farmington Hills – failed Shorebank, Detroit – merged Warren Bank – failed Kent Commerce Bank, Kentwood – merged Detroit Commerce Bank – merged
1999	**Community Shores Bank, Muskegon** **Northpointe Bank, Grand Rapids** Lakeside Community Bank, Sterling Heights – failed Bank of Rochester – merged New Century Bank, Shelby Township – failed North Oakland Community Bank, Rochester Hills – merged

2000	**Bank of Northern Michigan, Petoskey** **Old Mission Bank, Sault Ste. Marie** **Hantz Bank, Southfield** **Traverse City State Bank** (formerly Davison State Bank) Firstbank, St. Johns – merged
2001	**Northstar Bank, Bad Axe** **Bank of Alpena** **Seaway Community Bank, St. Clair** Bank of Washtenaw, Ann Arbor – merged **United Bank & Trust, Ann Arbor** New Liberty Bank, Plymouth – failed
2002	**Gogebic Range Bank, Bessemer** **Summit Community Bank, East Lansing**
2003	None
2004	**1st State Bank of Saginaw** Mainstreet Bank, Northville – failed
2005	**Bank of Michigan, Farmington Hills** **Huron Valley State Bank, Milford** (formerly Nstar Bank) **Main Street Bank, Bingham Farms** Bank of Auburn Hills – merged
2006	**First National Bank of Kalamazoo** **Bank of Birmingham**
2007	**Lotus Bank, Novi** **Talmer Bank & Trust, Troy** (formerly First Michigan Bank) Level One Bank, Farmington Hills
2008	None
2009	**Ann Arbor State Bank** **Grand River Bank, Grandville**

Where Have All The Banks Gone?

By DON MANN

Michigan Banker is celebrating 25 years in publishing in 2013, serving as the "News Magazine of Michigan's Banking Industry." As part of this important milestone in the magazine's quarter of century of coverage, I have been given the privilege to share some of my thoughts on our industry over these past years in a series of guest column stories to run in Michigan Banker in 2013.

For my first installment, I wanted to focus on the banking industry and the many changes we have gone through over the years, some even prior to when Michigan Banker was first published. As part of the process I reviewed the first issue of Michigan Banker published in January 1989. In that review I was amazed to find that there were numerous banks that were mentioned in the magazine which no longer exist. In that first issue there were 58 banks that no longer operate in Michigan as a separate charter. The result is that we have lost local decision makers and local board members who control the destiny of their communities. I think that is significant to our industry.

Prior to 1972 Michigan law prohibited corporations from owning bank stock. Only individuals and partnerships were permitted to do so, even though the Federal Reserve passed the Bank Holding Company Act in 1956. Once corporations were allowed to own bank stock, individual banks could form a holding company, make a deal to buy a bank, and then apply to the Federal Reserve for permission to acquire the bank. The shareholders of the purchasing holding company and the selling bank also had to approve the transaction.

The first two acquisitions were in the Upper Peninsula and were made by (First National Financial Corp.) in Kalamazoo. First National later became First of America, now PNC. The banks were in Menominee and Calumet. At that time there were about 500 banks and thrifts operating in Michigan.

Michigan's banking landscape was about to change as many smaller bank shareholders were rewarded for their ownership and offered great prices for their stock and as well, many senior officers of these banks were allowed to retire! Other large banks followed First National Financial Corporation and formed their own holding companies.

The larger banks at the time were the National Bank of Detroit (Chase), Detroit Bank and Trust (Comerica), Old Kent Bank (Fifth Third), and Michigan National (Bank of America). Many smaller regional banks in Michigan also formed holding companies as well as other smaller banks of the era. The buying began in earnest, by 1980, 181 banks were controlled by holding companies.

By the time the Michigan Banker magazine was formed in 1989 the total number of banks controlled by holding companies had risen to 264. Also, Michigan's restrictive 25 mile branching limit forced holding companies and the larger banks to form new banks to gain entry into markets where they were not permitted to branch because of the branching laws at the time. Many new banks were formed in this manner but it was an expensive form of expansion for the holding companies. These new banks essentially were banks, but they operated like branches.

During the mid 1980s state banking laws nationwide were changed to allow regional reciprocal banking. This permitted holding companies in the Great Lakes region to acquire banks in Michigan provided Michigan holding companies could buy banks in those states. Further changes in these laws finally culminated in 1985 permitting regional interstate banking, and finally full nationwide interstate branching on October 10, 1988.

These changes evolved over these years and really opened our borders to any company who wanted to do business and Michigan and own a bank or a bank holding company. The last step in this drama occurred in 1988, when the Michigan legislature allowed full statewide branching and removed the ancient 25 mile branching limit and home office protection. Home office protection restricted any bank from branching into a city or village if there already was a bank operating there.

Much to the surprise of many, it was not the big banks which branched into small communities as was feared by many community bankers. It was the community bankers themselves who set up branches in nearby communities. In fact many large banks sold their small branches in less populated communities to their local community bank competitors.

The overall impact of these changes was profound. By the turn of the century, the number of Michigan banks and thrifts had declined to 195. Even before that, as the number of acquisitions and consolidation was occurring, 37 new banks were chartered in Michigan by the end of 2000. This slowed the rate of decline on the number of banks headquartered here. Also during the last ten years fourteen Michigan banks failed.

The principal concern to community bankers, community leaders, and Michigan citizens should be that we are losing the local control and decision makers in our State. Its impact upon growth, business and our economy will be felt for years to come. Today the five largest out-of-state holding companies control 57.13 percent of our Michigan banking deposits. Adding the

FDIC State Profile

Michigan

Third Quarter 2012

ECONOMIC INDICATORS

Employment Growth Rates (change from year ago, unless noted)	Q3-12	Q2-12	Q3-11	2011	2010
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	1.4%	1.8%	1.9%	-0.2%
Manufacturing (13%)	3.6%	3.6%	6.0%	6.4%	2.4%
Other (non-manufacturing) Goods-Producing (3%)	-4.3%	-3.2%	3.3%	2.6%	-4.3%
Private Service-Producing (68%)	1.7%	1.9%	1.8%	2.1%	-0.0%
Government (15%)	-0.9%	-1.6%	-2.2%	-2.7%	-1.7%
Unemployment Rate (% of labor force)	9.2%	8.5%	10.4%	10.3%	12.6%

Other Indicators (change from year ago, unless noted)	Q3-12	Q2-12	Q3-11	2011	2010
Single-Family Home Permits	35.6%	35.4%	2.8%	-1.4%	22.8%
Multifamily Building Permits	-18.8%	131.0%	61.3%	-14.9%	84.3%
Home Price Index	-0.1%	0.3%	-3.4%	-3.5%	-6.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	4.45	5.26	5.21	5.69	6.75

BANKING TRENDS

General Information	Q3-12	Q2-12	Q3-11	2011	2010
Institutions (#)	131	131	133	132	136
Total Assets (in millions)	67,917	66,531	68,323	65,907	68,124
New Institutions (# < 3 years)	0	0	2	2	2
Subchapter S Institutions	17	17	17	17	17

Asset Quality	Q3-12	Q2-12	Q3-11	2011	2010
Past-Due and Nonaccrual Loans / Total Loans (median %)	3.83	3.53	3.92	4.07	4.76
Noncurrent Loans / Total Loans (median %)	2.23	2.28	2.41	2.36	2.86
ALLL/Total Loans (median %)	1.86	1.83	1.79	1.78	1.81
ALLL/Noncurrent Loans (median multiple)	0.79	0.79	0.67	0.77	0.70
Net Loan Losses / Total Loans (median %)	0.40	0.28	0.45	0.81	0.75

Capital / Earnings	Q3-12	Q2-12	Q3-11	2011	2010
Tier 1 Leverage (median %)	9.68	9.68	9.39	9.44	9.17
Return on Assets (median %)	0.81	0.81	0.68	0.52	0.36
Pretax Return on Assets (median %)	1.07	0.98	0.86	0.60	0.43
Net Interest Margin (median %)	3.93	3.91	4.01	3.96	3.89
Yield on Earning Assets (median %)	4.67	4.67	5.04	5.05	5.32
Cost of Funding Earning Assets (median %)	0.68	0.72	0.94	0.98	1.35
Provisions to Avg. Assets (median %)	0.22	0.27	0.31	0.45	0.63
Noninterest Income to Avg. Assets (median %)	0.82	0.80	0.66	0.65	0.67
Overhead to Avg. Assets (median %)	3.25	3.14	3.27	3.27	3.27

Liquidity/Sensitivity	Q3-12	Q2-12	Q3-11	2011	2010
Net Loans to Assets (median %)	63.68	66.29	67.26	67.71	69.13
Noncore Funding to Assets (median %)	14.92	15.62	17.17	17.07	19.27
Long-term Assets to Assets (median %, call filers)*	21.38	20.61	17.27	18.39	16.70
Brokered Deposits (number of institutions)	63	63	68	67	68
Brokered Deposits to Assets (median % for those above)	3.49	3.83	4.48	3.90	5.57

Loan Concentrations (median % of Total Risk-Based Capital)	Q3-12	Q2-12	Q3-11	2011	2010
Commercial and Industrial	67.20	71.01	73.27	72.26	74.26
Commercial Real Estate	241.63	245.86	251.34	252.03	271.42
Construction & Development	17.25	19.47	25.91	20.80	27.69
Multifamily Residential Real Estate	10.24	10.75	11.44	10.73	10.33
Nonresidential Real Estate	202.05	198.05	207.64	209.76	218.92
Residential Real Estate	192.19	199.88	212.48	209.41	222.57
Consumer	16.14	15.66	17.15	15.88	18.53
Agriculture	2.99	2.98	4.53	3.85	3.97

BANKING PROFILE

Largest Deposit Markets (from 2012 Summary of Deposits)	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Detroit-Warren-Livonia, MI	52	97,088	< $100 million	37 (28.2%)
Grand Rapids-Wyoming, MI	29	13,801	$100 million to $250 million	46 (35.1%)
Ann Arbor, MI	20	6,706	$250 million to $1 billion	39 (29.8%)
Lansing-East Lansing, MI	24	5,150	$1 billion to $10 billion	8 (6.1%)
South Bend-Mishawaka, IN-MI	19	4,809	> $10 billion	1 (0.8%)

* Prior to 2012, does not include data for insured savings institutions that filed Thrift Financial Reports. Beginning in 2012, all insured institutions file Call Reports.

Break up largest banks

GEORGE WILL

Ohio senator has right target in sight

With his chronically gravelly voice and relentlessly liberal agenda, Sherrod Brown seems to have stepped out of "Les Miserables," hoarse from singing revolutionary anthems at the barricades. Today, Ohio's senior senator has a project worthy of Victor Hugo — and of conservatives' support. He wants to break up the biggest banks.

He would advocate this even if he thought such banks would never have a crisis sufficient to threaten the financial system. He believes they are unhealthy for the financial system even when they are healthy. This is because there is a silent subsidy — an unfair competitive advantage relative to community banks — inherent in being deemed by the government, implicitly but clearly, too big to fail.

The Senate has unanimously passed a bill offered by Brown and Sen. David Vitter, a Louisiana Republican, directing the Government Accountability Office to study whether banks with more than $500 billion in assets acquire an "economic benefit" because of their dangerous scale.

In a sense, TBTF began under Ronald Reagan with the 1984 rescue of Continental Illinois, then the seventh-largest bank. In 2011, the four biggest U.S. banks (JPMorgan Chase, Bank of America, Citigroup and Wells Fargo) had 40 percent of all federally insured deposits. Today, the 5,500 community banks have 12 percent of the banking industry's assets. The 12 banks with $250 billion to $2.3 trillion in assets total 69 percent.

To see why TBTF also can mean TBTM — too big to manage — read "What's Inside America's Banks?" in the January/February issue of The Atlantic. Frank Partnoy and Jesse Eisinger argue that banks are not only bigger but also "more opaque than ever."

Thirty or so years ago, Brown says, seven of the world's 10 largest banks were Japanese, which was not an advantage sufficient to prevent Japan's descent into prolonged stagnation. And he says that when Standard Oil was broken up in 1911, the parts of it became, cumulatively, more valuable than the unified corporation had been.

Brown is undecided about whether the proper metric for identifying a bank as "too big" should be if its assets are a certain percentage of GDP — he suggests 2 percent to 4 percent — or simply the size of its assets (Richard Fisher, president of the Federal Reserve Bank of Dallas, has suggested $100 billion).

But breaking up the biggest banks will not put asunder what the free market joined together. Government nurtured these behemoths by weaving an improvident safety net. Dismantling them would be a blow against government that has become too big not to fail.

Aux barricades!

What do you think? Write George Will, Washington Post Writers Group, 1150 15th St. NW, Washington, DC 20071.

Lansing State Journal ▪ Monday, February 18, 2013