



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**April 16, 2007**

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

**First National Bank  
Charter Number 7647**

**101 West Lake Street  
Chisholm, MN 55719**

**Comptroller of the Currency  
Minneapolis North  
920 Second Avenue South Suite 800  
Minneapolis, MN 55402**

**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.**

- First National Bank (FNB) originates a majority of loans within its assessment area.
- Lending to businesses of different sizes and consumers of different income levels is satisfactory.
- The bank's average loan-to-deposit ratio is reasonable.
- The geographic distribution of loans is reasonable.

## **DESCRIPTION OF INSTITUTION**

First National Bank (FNB) is a financial institution headquartered in Chisholm, MN. It is owned by a single-bank holding company, M.I.F. Limited, Inc., which is also located in Chisholm. The bank's main office is located in Chisholm. The bank has one additional branch location in Cook, Minnesota. No branches were opened or closed during this evaluation period.

FNB is a full service community bank providing consumer and commercial banking products and services. Commercial customers are primarily small and medium size businesses in a variety of industries. Commercial loan products include secured and unsecured business loans, commercial real estate mortgages, airplane loans and lines of credit. Products available to small businesses include guaranteed loan programs through the SBA. Consumer loan products include fixed and adjustable mortgages, home equity lines of credit, home improvement, airplane, auto, and personal loans. Based on the volume of loan originations, business and consumer loans were determined to be primary products since the last CRA Evaluation.

As of December 31, 2006, FNB had \$57 million in total assets and \$53 million total deposits. The bank's loan portfolio was comprised of the following loan types by outstanding dollar volume on December 31, 2006: residential real estate (47.5%), commercial and commercial real estate (34.2%), consumer (17.2%), and other (1.1%). FNB's loan portfolio totaled \$29 million, or 51% of total assets.

FNB received an outstanding rating at its February 5, 2001 CRA evaluation. There are no legal or financial constraints on FNB that impede the bank's ability to meet community credit needs.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area (AA) encompasses 18 census tracts in the northeastern half of St. Louis County, MN. St. Louis County is located in the Duluth-Superior Metropolitan Statistical Area (MSA) and is the largest county in Minnesota. According to 2000 Census Data, the 18 census tracts include 4 moderate-income tracts and 14 middle-income tracts. The AA does not contain any low-income census tracts. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate- income areas.

The 2000 U.S. Census population of the AA was 57,767. The 2006 updated HUD Estimated Median Family Income was \$55,700. The income distribution for families in the AA is 20.2% low-income, 19.4% moderate-income, 24.9% middle-income, and 35.5% upper-income. The 2000 US Census data indicates that 12.7% of households and 7.6% of families in the assessment area are below the poverty level. The MSA unemployment rate for May 2006 was 5.1%. This is higher than the Minnesota unemployment rate of 4.2% and the U.S unemployment rate of 4.3%.

The local economy is highly dependent on the mining industries and businesses related to mining. Secondary industries are service businesses, retail businesses, and tourism. The taconite mining industry is experiencing an economic resurgence as world wide demand for steel is strong.

Competition from other financial institutions in the assessment area is strong. There are 24 financial institutions operating in St. Louis County. Many of these institutions primarily operate within the southern portion of the county, within and near the city of Duluth and have branches in the AA. The bank has 1.61% of the MSA’s deposit market share.

We contacted a local business organization to learn more about the condition of the local economy and their perceptions on the community’s credit needs. The contact indicated that FNB is actively involved in the community. The contact described the local economy as stagnant and identified consumer loans and small business loans as two of the area’s primary credit needs.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

The bank’s net loan-to-deposit ratio is reasonable based on the bank’s financial capacity and available lending opportunities. From March 31, 2001 to December 31, 2006, the bank's quarterly loan-to-deposit (LTD) ratio ranged from 50% to 71% and averaged 57%. This ratio is lower than past performance and ranks last among similarly situated banks. Similarly situated institutions include banks headquartered in northern St. Louis County and have total assets ranging from \$20 million to \$75 million.

<b>Institution</b>	<b>Assets (as of 12/31/06)</b>	<b>Average Loan-to- Deposit Ratio; 1Q01 – 4Q06</b>
<b>First National Bank</b>	<b>\$57 million</b>	<b>57%</b>
Miners National Bank of Eveleth	\$44 million	60%
First National Bank of Buhl	\$20 million	66%
First National Bank of Gilbert	\$25 million	67%
Northern State Bank of Virginia	\$52 million	75%
State Bank of Tower	\$52 million	87%
State Bank of Aurora	\$30 million	98%

The average LTD ratios for the selected similarly situated banks ranged from 60% to 98% over the same period. The lower LTD ratio is attributable to increased competition for real estate loans from mortgage brokers and the sale of residential real estate loans on the secondary market. FNB sold 27 residential real estate loans totaling \$4 million from December 2005-March 2007.

**Lending in Assessment Area**

The majority of FNB's loans are originated within their assessment area. To assess the lending in the assessment area for business loans and consumer loans, we pulled a random sample of 20 loans of each type originated between January 2005 and April 2007. The bank originated 83% of their loans in the AA. The bank's ratio of lending in the assessment area was calculated from its primary loan types. Business loans and consumer loans were selected as primary loan types based on analysis of loan originations since the last CRA exam.

Loan Type	Inside AA		Outside AA		Total
	#	%	#	%	
Business	16	80.0%	4	20.0%	20
Consumer	17	85.0%	3	15.0%	20
Totals	33	82.5%	7	17.5%	40

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

FNB’s lending to borrowers of different incomes and businesses of different sizes is reasonable. To assess the bank’s performance, examiners selected a sample of 20 consumer loans and 20 business loans originated in the AA since 2005. The loan products represent the primary loan types originated since the last CRA examination.

The bank’s record of lending to businesses of different sizes is reasonable. Contextual research and community contact information indicate that 90% to 95% of businesses in the AA have revenues of less than \$1 million. Based on our sample, the bank originated 75% of its loans to businesses with revenues less than \$1 million. The business revenue of sampled loans was \$27.5 thousand to \$2.7 million.

Revenue Size of Business	By Number %	By Dollar %	Demographic for Assessment Area*
Less Than \$1 Million	75%	47.7%	59.1%
Greater Than \$1 Million	10%	13.4%	4.9%
Revenue Not Reported	15%	38.9%	36.0%

\* Based on 2005 Business Geodemographic Data.



The bank has an excellent distribution of consumer loans among borrowers of different income levels based on the family income demographics of the assessment areas. Based on 2000 U.S. Census information 25.8% of the households in the AA are low income. Approximately 17.0% of the households are moderate income. Based on our sample, the bank originated 90% of its consumer loans to low- and moderate-income households.

<b>Borrower Distribution of Consumer Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	25.8%	35%	17.0%	55%	18.7%	10%	38.5%	0%

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects a reasonable dispersion of loan originations in the bank's AA. To assess the bank's performance in this area, examiners selected a sample of 20 consumer loans and 20 business loans originated in the AA since 2005. FNB's AA does not have any low-income census tracts. Consumer lending in moderate-income tracts was 0% by number compared to the demographic of 22.2% of households located in moderate-income tracts. Business lending in moderate-income tracts was 5% by number compared to a demographic of 15.8% of businesses located in moderate-income tracts.

The bank's conspicuous gaps in geographic distribution are primarily caused by the bank and its branch's location in middle-income tracts, while local competition in the AA is located in moderate-income tracts. The majority of the bank's loans were originated in the census tracts where the bank and its branch are located. In addition, the AA's moderate-income tracts are home to branches of several financial institutions resulting in a competitive advantage over FNB. The bank provided a list of loans originated in the AA's moderate-income tracts since 2005. Although limited due to the competition in the area, FNB is able to make some loans in the moderate-income geographies.

<b>Geographic Distribution of Consumer Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0%	0%	22.2%	0%	77.8%	100%	0%	0%

<b>Geographic Distribution of Loans to Businesses in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Business	0%	0%	15.8%	5%	84.2%	95%	0%	0%

### **Responses to Complaints**

No CRA related complaints have been reported since the last CRA Examination.

### **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.