



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Cass Lake
Charter Number 6352**

**210 Second Street Northwest
Cass Lake, MN 56633**

**Comptroller of the Currency
ADC - Minneapolis North
302 West Superior Street, Suite 307
Duluth, MN 55802**

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 First National Bank of Cass Lake (FNB) meets the credit needs of its assessment area as demonstrated by:

- Origination of a substantial majority of commercial and commercial real estate, residential real estate, and consumer loans within the assessment area.
- Reasonable loan distribution among its primary loan products to borrowers of various incomes.
- Excellent geographic distribution of loans throughout the assessment area, specifically to borrowers and businesses in moderate-income geographies.

DESCRIPTION OF INSTITUTION

FNB is a \$19 million commercial bank located in northern Minnesota. The bank operates one full-service facility and two automated teller machines (ATMs) in Cass Lake, Minnesota. One ATM is located at the bank and the other is at Cass Lake Mini-Mart. The bank's office and its ATMs are located in a moderate-income geography.

The bank is 100% owned by Western Bancorporation, which is headquartered in Duluth, Minnesota. Western Bancorporation is a \$120 million holding company that purchased FNB in September 2001. The bank's other affiliates are Premier Credit Corporation and Western National Bank.

FNB's business focus is commercial and commercial real estate, residential real estate, and consumer lending. According to its Report of Condition and Income, FNB's loan portfolio was comprised of the following loan types by outstanding dollar volume on December 31, 2002: commercial and commercial real estate (37%), residential real estate (31%), consumer (25%) and other (7%). Net loans represent 37% of total assets.

FNB received a "Satisfactory" rating at its May 3, 1999 CRA evaluation. This Performance Evaluation assesses the bank's CRA activities from June 1, 1999, through December 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area consists of nine whole block-numbering areas (BNAs) in three counties. These adjoining BNAs surround the bank's office location. The assessment area includes the southern half of Beltrami County (BNAs 9501, 9503, and 9509), the northern half of Hubbard County (BNAs 9701 and 9703), and the northwestern half of Cass County (BNAs 9605, 9610,

9611, and 9612). The area’s population was estimated at 21,000 people in the 1990 U.S. census.

The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. The table below shows that the assessment area is comprised of four moderate- and five middle-income geographies based on 1990 census data. It also shows a distribution by family income level for the assessment area.

Distribution of BNA and Families by Income Level								
Assessment Area	Number of BNAs				Percentage of Families			
	Low	Mod	Mid	Upper	Low	Mod	Mid	Upper
FNB Assessment Area	0	4	5	0	25	21	22	32

Source: U.S. census data (1990)

Including FNB, there is a total of ten financial institutions located in Beltrami, Cass, and Hubbard counties. In Cass Lake, lending competition from other financial institutions is modest, as there are no other banks with main offices or branches in the city. The lack of economic development of Cass Lake and a substantial volume of fluctuating deposits from one relationship present unique circumstances to FNB’s operating environment.

Major employers in the assessment area include the Minnesota Chippewa Tribe, Leech Lake Band of Chippewa, Lamb-Weston/RDO Frozen, North Country Health Services, and St. Joseph’s Area Health Services. Industries in the area include: manufacturing, service, retail, county government, and medical. The area also relies heavily on tourism, as there are several resorts, hotels, and motels near Cass Lake. For 2002, the unemployment rates for Beltrami, Cass, and Hubbard Counties were 5.0%, 6.3%, and 5.0%, respectively. The unemployment rates for the counties in the assessment area are comparable to the unemployment rate for the State of Minnesota (4.4%) and the United States (5.8%).

Updated median family income for Minnesota's Non-Metropolitan Statistical Areas increased to \$48,500 in 2002 compared to \$28,933 as of the 1990 census. The percentage of households with income below the poverty level is high at 16%. Also, 1990 census data indicated that the weighted-average median housing value was \$53,602.

We conducted one community contact with a local real estate agent to evaluate the credit needs of the assessment area. The contact indicated that the credit needs of the community include affordable housing and economic development opportunities. The overall credit needs of the area fit the product lines offered by this and other local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending in Assessment Area

FNB originates a substantial majority of its loans to borrowers located within its assessment area. Based on a sample of 60 loans, 83% by number and 75% by dollar volume were originated within the assessment area. These ratios were calculated using 20 randomly selected loans for each of the bank's primary loan products: commercial (including commercial real estate), residential real estate, and consumer. The sample of loans included originations during the evaluation period for each primary loan product.

Lending in Assessment Area by Number and Dollar Amount (000s)				
Type of Loan	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Dollars
Commercial	18	90%	\$882	82%
Residential RE	16	80%	\$455	52%
Consumer	16	80%	\$23	92%
Total	50	83%	\$1,360	75%

Source: Bank Records (verified by examiners)

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

FNB's distribution of loan originations to borrowers within the assessment area of different income levels and businesses of different sizes is reasonable. Specifically, commercial and commercial real estate lending in the assessment area approximates area demographics and is weighted toward businesses with revenues of less than \$1 million. FNB's distribution of residential real estate loans to borrowers of different income levels reflects excellent penetration to low-income borrowers. The distribution of consumer loans reflects excellent penetration to low- and moderate-income borrowers.

Commercial and commercial real estate lending in the assessment area reflects community demographics for smaller sized businesses. For comparison purposes, small businesses are defined as those with annual revenues less than \$1 million. The table below shows that the bank's distribution of commercial loans for businesses with various annual revenues is similar to the demographics. The data was compiled from 15 randomly selected commercial loans originated in the assessment area throughout the evaluation period.

Borrower Distribution of Commercial Loans by Revenue Size			
Annual Gross Revenue	Number of Loans	Percent by Number	Business Demographic Data

< \$50,000	6	40%	95%**
\$50,000 - \$100,000	1	7%	
\$100,000 - \$250,000	2	13%	
\$250,000 - \$500,000	3	20%	
\$500,000 - \$1,000,000	1	7%	
\$1,000,000	2	13%	5%**
Totals	15*	100%	100%**

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

* We sampled a total of 19 loans; however, loans without revenue information were excluded from the above analysis.

** Note: Business demographic data is for reporting companies only. In the assessment area, 21% of businesses did not report their revenue.

Residential real estate lending performance exceeds the demographics of the assessment area for low-income borrowers. Penetration to borrowers with low-income levels is especially outstanding considering the high number (16%) of households with income below the poverty level. The table below shows the bank's distribution of residential real estate loans to borrowers of different income levels compared to the demographics. The data was compiled from 20 randomly selected residential real estate loans originated in the assessment area throughout the evaluation period. The loans were analyzed and categorized based upon the updated 2002 Minnesota Non-Metropolitan Statistical Area (MSA) estimated median family income.

Borrower Distribution of Residential Real Estate Loans by Income Level			
Borrower Income Level	Number of Loans	Percent by Number	Percent of Families Within AA
Low	9	45%	25%
Moderate	0	0%	21%
Middle	4	20%	22%
Upper	7	35%	32%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

The bank's distribution of consumer loans by household income level exceeds the demographics for low- and moderate-income families. The table below shows the bank's distribution of consumer loans to borrowers of different income levels compared to the percent of households in the assessment area by income level. The data was compiled from 20 randomly selected consumer loans originated in the assessment area throughout the evaluation period.

Borrower Distribution of Consumer Loans by Income Level			
Borrower Income Level	Number of Loans	Percent of Loans by Number	Percent of Households
Low	9	45%	27%
Moderate	8	40%	16%
Middle	3	15%	21%
Upper	0	0%	36%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Geographic Distribution of Loans

The bank's geographic distribution of loans throughout the assessment area is excellent. Commercial and commercial real estate, residential real estate, and consumer loans are primarily originated in moderate-income geographies. Originations of commercial and commercial real estate, residential real estate, and consumer loans exceed the demographics of the assessment area for moderate-income BNAs. Originations for the primary product types include loans to borrowers in most BNAs.

The geographic distribution of commercial originations exceeds the demographics of the assessment area for moderate-income BNAs. The following table represents the overall geographic distribution of a sample of 19 commercial and commercial real estate loans originated within the assessment area during the evaluation period.

Geographic Distribution of Commercial Loans by Income Level					
BNA Income Level	Number	Percent of Number	Dollar Amount	Percent of Amount	Percent of Businesses by BNA Category
Moderate	18	95%	\$930	98%	36%
Middle	1	5%	\$15	2%	64%
Totals	19	100%	\$945	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

The geographic distribution of residential real estate originations exceeds the demographics for moderate-income BNAs. The following table represents the overall geographic distribution of a sample of 20 residential real estate loans originated within the assessment area throughout the evaluation period.

Geographic Distribution of Residential Real Estate Loans by Income Level					
BNA Income Level	Number	Percent of Number	Dollar Amount	Percent of Amount	Percent of Owner-Occupied Homes by BNA Category
Moderate	18	90%	\$648	88%	30%
Middle	2	10%	\$85	12%	70%
Totals	20	100%	\$733	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (1990)

The geographic distribution of consumer originations exceeds the demographics of the assessment area for moderate-income BNAs. The following table shows the overall geographic distribution of a sample of 20 consumer loans originated within the assessment area during the evaluation period.

Geographic Distribution of Consumer Loans by Income Level					
BNA Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Households by BNA Category
Moderate	19	95%	\$37	97%	32%
Middle	1	5%	\$1	3%	68%
Totals	20	100%	\$38	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (1990)

Loan-to-Deposit Ratio

FNB's average quarterly net loan-to-deposit ratio is reasonable considering its size, unique deposit structure, and the small average size of its loan originations. From June 30, 1999 to December 31, 2002, the bank's quarterly net loan-to-deposit ratio ranged from 23% to 41% and averaged 31%. If total deposits are adjusted to exclude the concentration in deposits from one entity, the loan-to-deposit ratio would be 65% as of December 31, 2002. Given the bank's size and unique deposit structure, comparing FNB's average quarterly loan-to-deposit ratio to other similarly situated institutions is not meaningful. The average quarterly loan-to-deposit ratio of the most comparable bank based on size was 88% during this evaluation period. FNB's loan-to-deposit ratio is also impacted by its origination of numerous consumer loans. The total dollar volume associate with these loans is low due to a small average loan size.

Responses to Complaints

There have been no CRA-related complaints since the last CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.