



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 5, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of McIntosh
Charter Number 6488**

**260 Cleveland Avenue SW
McIntosh, MN 56556**

**Comptroller of the Currency
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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.

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Institution's CRA Rating: This institution is rated Satisfactory.

The First National Bank of McIntosh's rating is based on the following factors:

- Our sample of small farm loans and consumer residential real estate loans reflects reasonable penetration to farms of different revenue sizes and consumers with different income levels.
- All of the sampled agricultural loans were extended to borrowers located within the bank's assessment area.
- A majority of loans secured by a first mortgage on residential real estate properties were located within the bank's assessment area.

Description of Institution

The First National Bank of McIntosh (FNB) is a \$25 million bank located in Polk County in northwestern Minnesota. The bank has no branches and no automatic teller machines. The bank is owned by the Beito family group, which includes four state banks located in Thief River Falls, Oklee, New Folden, and Gonvick. There have been no acquisitions, mergers, or corporate changes since the previous CRA evaluation.

The bank's loan portfolio is fairly diverse. The composition of the portfolio as of September 30, 2001 is as follows:

Loan Portfolio Composition	\$ (000)	%
Commercial and Agricultural Real Estate Loans	910	15%
Commercial and Agricultural Loans	2,319	39%
Residential Real Estate Loans	1,868	31%
Consumer Loans	930	15%

The bank's strategy and lending philosophy is conservative. FNB offers traditional banking products with minimal projected growth. Lending activity focus is on agricultural, residential real estate, and consumer loans. Loans represent 23% of total bank assets.

FNB was rated "Satisfactory" at its previous CRA evaluation dated May 6, 1997. The bank does not have any legal impediments that would restrict its ability to meet the credit needs of the community. The bank does have a referral arrangement with its affiliate bank in Thief River Falls to process residential real estate loans to the secondary market. Participation in this program is limited due to the lower average price of housing in the area. Smaller loans are not conducive for this program. The bank has a strong capital base that works to the bank's advantage in its ability to extend loans.

Description of First National Bank of McIntosh's Assessment Area

FNB's assessment area includes census tracts #209 and #210 in Polk County. These census tracts are contiguous tracts located in Polk County which is part of the Grand Forks and East Grand Forks Metropolitan Statistical Area. The assessment area is legal; it includes whole census tracts and does not arbitrarily exclude low- or moderate-income geographies. Cities included in the area are McIntosh, Trail, Fosston, Lengby, Erskine, Oklee, and Mentor.

The demographics of the assessment area are described below. The information is based on the 1990 census data unless otherwise noted. This is the most recent information available during our evaluation.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	1,979
Number of Households	2,842
Number of Low-Income Families	559
% of Low-Income Families	28.25%
Number of Moderate-Income Families	524
% of Moderate-Income Families	26.48%
Number of Middle-Income Families	423
% of Middle-Income Families	21.37%
Number of Upper-Income Families	473
% of Upper-Income Families	23.90%
% Minority Population	1.5%
<i>Geographies</i>	
Number of Census Tracts/BNA	2
% Low-Income Census Tracts/BNA	None
% Moderate-Income Census Tracts/BNA	100%
% Middle-Income Census Tracts/BNA	None
% Upper-Income Census Tracts/BNA	None
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	29,793
2001 HUD-Adjusted MFI	48,500
<i>Economic Indicators</i>	
Unemployment Rate	2.73%
2001 Median Housing Value	32,760
% of Households Below Poverty Level	20.55%

The area is reliant on agriculture, primarily dairy and cash crops. The agricultural economy has experienced several years of depressed commodity prices. However, higher yields, government subsidies, and insurance coverage have made up the revenue difference. Many of the farms are supported by an off-farm income. Employment opportunities outside of farming, include the area school district, county government offices, and service providers. Based on 1990 census data, there were 541 farm and non-farm businesses in the assessment area. Of these, 91% are considered small businesses with annual revenues of less than \$1 million.

The major competitor banks of similar size are located in Erskine, Winger, Fosston, Oklee, and Fertile. These banks range in asset size from \$18 to \$61 million in assets.

During our evaluation we contacted city and county officials to discuss the credit needs of the area. Primary credit needs identified by these contacts include affordable housing, both rentals and owner occupied.

Conclusions about Performance Criteria

Five criteria are utilized in evaluating a bank's effectiveness in meeting the financial needs of the consumer and commercial entities located within the assessment area. To assess the bank's performance, we sampled loans extended since the last evaluation, conducted interviews with business people in the community, and reviewed the bank's CRA Public File.

FNB's strength is its willingness to lend within its assessment area and lending to low- and moderate-income level borrowers. The bank has a strong capital base, which increases its financial and regulatory ability to extend loans.

FNB's area for improvement is its marginal loan-to-deposit ratio. Management should consider offering new loan product lines, participating in existing, innovative government loan programs, and increase its marketing efforts to make the public aware of its willingness to extend credit.

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

The bank's efforts to lend to individuals of different income levels and businesses of different sizes are reasonable.

The bank's lending practices for residential real estate loans is consistent with 1990 census data information. The data reflects that 28% of the families were considered low-income and 27% moderate-income. The loan sample we analyzed reflects that 61% of the number of loans and 48% of the dollar volume of loans extended were to low- and moderate-income families.

To determine annual income levels on consumer borrowers, we used the same loan sample as in previous tables, including only loans that are in the bank's assessment area. We added two loans in the area to achieve a sample of 20 loans. The table below summarizes income levels of 20 loans totaling \$650 thousand to the demographics of the assessment area. The sample represents 11% of the banks total loans.

RESIDENTIAL REAL ESTATE				
Borrower Income Level	LOW <50% of median family income*	MODERATE At least 50% and <80% of median family income*	MIDDLE At least 80% and <120% of median family income*	UPPER >120% of median family income*
% of Families	28%	27%	21%	24%
Number of Loans	4	9	2	5
Percentage Number	20%	45%	10%	25%
Dollar Amount of Loans	\$114,000	\$229,000	\$98,000	\$209,000
Percentage Number	18%	35%	15%	32%

* Median family income for 2001 is \$48,500

The bank's lending practices for small farm loans is consistent with 1990 census data. The census data reflects that 98% of the farm businesses in the assessment area had revenues of less than \$1 million dollars. Of the loans we sampled, 100% had revenues well below this level.

The following table depicts revenues for 19 small farm loans (1 loan out of our original sample of 20 did not report revenues) in our sample totaling \$652 thousand. The sample represents 11% of the banks total loans.

BORROWER DISTRIBUTION OF LOANS TO SMALL FARMS			
Farm Revenues	≤\$250,000	>\$250,001 to \$500,000	>\$500,000
Number of Loans	8	11	None
% of Total Number of Loans Reviewed	42%	58%	Not Applicable
Dollar Amount of Loans	\$158,000	\$494,000	None
% of Dollar Volume of Loans Reviewed	24%	76%	Not Applicable

The bank also participates in programs focusing on small businesses and low-income individuals. As of our evaluation date, the bank extended eight farm loans guaranteed by Farm Service Agency totaling \$839 thousand. They also extended six, one thousand-dollar loans under the Project JobWrap program. This is a county program that assists low-income individuals in overcoming barriers to enter the workforce. FNB also promotes county/regional record keeping and management courses for farmers. They have three borrowers involved in NW Minnesota Dairy Diagnostic Team Project and Farm Business Management Programs.

Lending in Assessment Area

The bank demonstrates strong performance of lending in its assessment area. Our conclusion is based on loans originated since the previous examination. We sampled 20 loans originated under each of the bank's primary loan products. The products reviewed were farm loans for capital purchases (excluding real estate) and first mortgages on residential real estate.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Farm Term Loans	20	100%	\$668	100%	0	0	0	0
Residential Real Estate Loans	18	90%	\$594	78%	2	10%	\$171	22%
Total Reviewed	38	95%	\$1,262	88%	2	5%	\$171	12%

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is marginally acceptable given the bank's size, financial condition, assessment area credit needs, and local economic conditions. Since the previous CRA examination, the bank's average, quarterly loan-to-deposit ratio is 39%. This ratio declined slightly since the previous evaluation, however, the decline is attributable to deposit growth rather than loan decline. As evidenced by the lower ratios, loan demand in the area is lower due to the less populated area and continued distressed farm commodity prices. Lower loan demand is also evidenced by the number of loan requests denied. Denied loan applications since the previous examination is minimal.

The following table depicts the loan-to-deposit ratios of similar size banks that are located in the bank's assessment area or have overlapping assessment areas.

LOANS-TO-DEPOSITS RATIO		
Institution	Assets 6/30/01	Average Ratio
Security State Bank of Oklee	\$25 Million	34%
First State Bank of Fertile	\$29 Million	34%
First National Bank of McIntosh	\$24 Million	39%
First National Bank of Bagley (Fosston)	\$61 Million	64%
American State Bank of Erskine	\$18 Million	73%
Ultima Bank Minnesota, Winger	\$41 Million	93%

Geographic Distribution of Loans

A geographic distribution of loans in various income level tracts of the bank's assessment area is not relevant. The bank's assessment area contains two census tracts; both are moderate-income.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending

An analysis of two years public comments and consumer complaint information since 1997 was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed during 1997.

