



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 20, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**First American Bank, N.A.
Charter Number 23289
345 Fourth Avenue
International Falls, MN 56649**

**Supervisory Agency: Office of the Comptroller of the Currency
Midwestern District
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, MN 55402**

Note: 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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GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Assessment Area (AA) - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of a MSA. A rural assessment area may contain one or more neighboring counties.

Census Tract (CT) - Small, locally defined statistical areas within a MSA. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

Community development loan - A loan which must have as its *primary* purpose community development.

Community development purpose is defined as affordable housing (including multifamily rental housing) for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing businesses or farms that meet size and revenue standards defined by the CRA regulation; and, activities that vitalize or stabilize low- and moderate-income geographies. Community development loans specifically exclude loans which have been reported under the Home Mortgage Disclosure Act or as small loans to businesses or farms, except for multi-family rental housing loans, which can be reported under both categories.

Community development service - A service that must have community development as its *primary* purpose and is related to the provisions of financial services.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in MSAs to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of the applicant(s), the amount of loan requested and its disposition (e.g made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase loans, home improvement loans, refinancing of home purchase and home improvement loans and loans for the purchase of multi-family (5 or more units) dwellings. *(This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2801, as amended, and 12 C.F.R. 203, as amended.)*

Income Levels - These relate to individuals, families or the CTS in a MSA.

Low = An income level that is less than 50% of the median income.

Moderate = An income level that is at least 50% and less than 80% of the median income.

LMI = An income level that is less than 80% of the median income.

Middle = An income level that is at least 80% and less than 120% of the median income.

Upper = An income level that is 120% or more of the median income.

Median Family Income - The median family income for a specific MSA as determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

Metropolitan Statistical Area (MSA) - An area containing a city with a population of at least 50,000 or an urbanized area with a population of at least 50,000 and a total metropolitan population of at least 100,000. Generally, MSAs consist of one or more whole counties that have a high degree of interaction.

Qualified investment - A lawful investment that has as its *primary* purpose community development.

Small Business or Small Farm - A business or farm that has \$1,000,000 or less in gross annual revenues.

Small Loan to a Business or Farm - A loan of \$1,000,000 or less to a business of any size or a loan of \$500,000 or less to a farm of any size.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **First American Bank, N.A.**, prepared by the **Office of the Comptroller of the Currency (OCC)** as of **February 20, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Scope of Examination

The OCC examined FAB using the Lending, Investment and Service Tests for large banks pursuant to the revised CRA Regulation. These tests assess the bank's record of helping to meet community credit needs. We analyzed the bank's: small business, small farm and community development loans, and mortgage loans; the number and types of qualified investments; branch distribution and accessibility; and, retail and community development services. Because consumer loans represent a significant portion of recent originations within the bank's loan portfolio, we also evaluated the bank's performance in generating consumer loans within the AA and to borrowers of different income levels.

Institution's CRA Rating: This institution is rated "**Satisfactory Record of Meeting Community Credit Needs**".

We rated FAB "Satisfactory" because:

- the bank has demonstrated good responsiveness to the credit needs of small businesses within the AA;
- the bank's distribution of loans to businesses and farms with different revenue sizes shows that most loans are made to small businesses and farms;
- the bank makes a significant majority of all loans within the AA;
- the bank's overall level of lending within the AA is consistent with lending opportunities because of the general demographics and economic conditions of the AA;
- the bank has made an acceptable volume of grants that qualify under the community development investment test, although the grants were made primarily by the bank's affiliate, the Otto Bremer Foundation; and
- banking services and delivery systems are reasonably accessible to all portions of the AA.

The following table indicates the performance level of FAB with respect to the lending, investment and service tests.

Performance Levels			
First American Bank of International Falls			
Performance Tests			
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs To Improve			
Substantial Noncompliance			

*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

FAB’s prior Performance Evaluation was dated August 29, 1994, and the rating was “Satisfactory Record of Meeting Community Credit Needs”. The current evaluation covers the period from January 1, 1995 through October 31, 1997.

DESCRIPTION OF THE INSTITUTION

First American Bank, National Association (FAB) of International Falls is one of 14 banks that are wholly owned subsidiaries of Bremer Financial Corporation (BFC). FAB offers a full range of agricultural, real estate, consumer, and commercial credit products. Bank management's primary focus is to provide a broad range of financial services and products to the local community. The BFC Mission Statement says that the bank will provide quality products and services that meet the needs of the customer while contributing to the economic and social environment of the local community. FAB has one location that also includes drive-up facilities and an automated teller machine (ATM).

There are no impediments which would hamper FAB's ability to help meet the credit needs of its assessment area. As of June 30, 1997, FAB had \$67,842,000 in total assets. The bank's loan-to-deposit ratio on that date was 53%, and gross loans represented 50% of total assets. The loan portfolio consisted of the following types of credit: 41% in commercial and commercial real estate; 34% in mortgage loans on one- to four-family residential real estate; 21% in consumer loan products; and 4% in all other loans. For calendar year 1996, FAB had net income of \$978,000 for a return on average assets of 1.59%

BFC is a multi-state, regional holding company headquartered in Saint Paul, Minnesota with total assets of \$2.9 billion. It has more than 80 banking locations throughout Minnesota, North Dakota, and Wisconsin. BFC is, in turn, owned by the Otto Bremer Foundation, a charitable trust. Other non-bank affiliates include a trust company, two insurance companies, a management and support service company, an investment company, an insurance premium finance corporation, an asset based lending and leasing service company, an operations and support service company, and a life insurance company.

DESCRIPTION OF THE ASSESSMENT AREA

FAB’s assessment area consists of Koochiching County which is located on the northern edge of Minnesota along the Canadian border. Koochiching County encompasses approximately 3,300 square miles, consisting of mostly forested land. The Rainy Lake recreation area and Voyageurs National Park, located outside the city of International Falls, offer year round sports and recreation activities. Population within the county has been decreasing and is currently at 16,000 people. Approximately 7,800 people live in the city of International Falls.

The AA consists of six Block Numbering Areas (BNAs). There is one upper-income BNA, four middle-income BNAs, and one low-income BNA. There are no moderate-income BNAs. The low-income BNA is sparsely populated (only 25 families) and in the far southeast corner of Koochiching County. This BNA also contains the Nett Lake Indian Reservation. The upper-income BNA is located in the city of International Falls along the Rainy Lake shoreline. The median family income based on 1990 census information is \$28,932. The updated median family income for the AA is \$38,400 (source: 1996 Department of Housing and Urban Development). A table showing the distribution of BNAs and the number of families and individuals within each of the BNAs follows.

INCOME LEVEL of BNA	# of BNAs	% of BNAs	# of families	% of families	# of individuals	% of individuals
Low-income	1	17%	25	0.6%	85	0.5%
Moderate-income	0	0%	0	0.0%	0	0.0%
Middle-income	4	66%	3,878	90.0%	14,893	91.4%
Upper-income	1	17%	404	9.4%	1,321	8.1%
TOTALS	6	100%	4,307	100%	16,299	100%

A breakout of families by income category living within the AA, regardless of location, follows. We also adjusted the low-income category to reflect the number of families living below the poverty level. We adjusted this figure because it is highly unlikely that these families could qualify for bank loans.

INCOME LEVEL BY FAMILY	# of families	% of families	# of families below poverty level	adjusted # of families	adjusted % of families
Low-income	864	20%	376	488	12%
Moderate-income	845	20%		845	22%
Middle-income	915	21%		915	23%
Upper-income	1,683	39%		1,683	43%
Unknown	0	0%		0	0%
TOTALS	4,307	100%		3,931	100%

The economy is highly dependent upon the local timber industry. The greatest business opportunities are in logging and the expanding tourism industry. Major employers in the area are an internationally known paper company, the local school district, and health care workers. The unemployment rate at eight-percent is high but does not reflect seasonal adjustments for some of the forestry or logging operations and tourism jobs that are available in the summer.

The community contacts that we and other regulatory agencies made during the last 18 months said that the economy is stagnant, there is little opportunity for business growth, and that the population is declining and those remaining are aging. Some contacts said that the vast distance between International Falls and major metropolitan areas and the relatively small but highly unionized workforce make it difficult to attract new businesses and industries to the area. Contacts said that local development agencies have more dollars available for community development than they have interested applicants. Although the contacts that we made indicated a need for rental housing, especially for elderly housing, approximately 23% of available housing units are vacant. The four community contacts were representatives from various economic development agencies.

Primary competition for this bank comes from the employees' credit union of the major employer in town. Norwest recently purchased the only other bank located in International Falls which also has a branch in Littlefork. Within the rest of Koochiching County, a state-chartered bank has offices in Big Falls and Northome.

The following tables show the distribution of businesses and farms by sales volume and the income level of the BNA in which they are located. Most of the businesses and all farms have annual gross revenues less than \$1 million.

INCOME LEVEL OF BNA	# (%) of BNAs	Biz - less than \$1 million in sales # and (%)	Biz - more than \$1 million in sales # and (%)	Biz - sales not reported # and (%)	Total Businesses # (%)
Low-income	1 (17%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Moderate-income	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Middle-income	4 (66%)	302 (74%)	33 (8%)	59 (14%)	394 (97%)
Upper-income	1 (17%)	7 (2%)	0 (0%)	4 (1%)	11 (3%)
TOTALS	6 (100%)	309 (76%)	33 (8%)	63 (15%)	405 (100%)

INCOME LEVEL OF BNA	# of BNAs	Farms - less than \$1 million in sales	Farms - more than \$1 million in sales	Farms - sales not reported	Total Farms
Low-income	1 (17%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Moderate-income	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Middle-income	4 (66%)	5 (83%)	0 (0%)	0 (0%)	5 (83%)
Upper-income	1 (17%)	1 (17%)	0 (0%)	0 (0%)	1 (17%)
TOTALS	6 (100%)	6 (100%)	0 (0%)	0 (0%)	6 (100%)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Lending Activity

We reviewed small business and small farm loans from 1996 as reported on the bank’s CRA Disclosure Statement. At the time of our review, small business and small farm information for 1997 had not been reviewed by the bank for accuracy nor was it readily available. This bank is not subject to reporting real estate loans through annual HMDA disclosures. We did, however, evaluate the level of real estate lending by reviewing loans recorded on the bank’s Fair Housing Home Loan Data Sheet from January 1, 1996 through October 31, 1997. Because consumer lending represents a significant portion of the bank’s loan originations, we also reviewed a sample of auto loans and other, miscellaneous installment loans. Based on information submitted to us for 1996, consumer loans represented 83% of all loan originations. Through our review, we determined the volume of loans originated, whether or not this volume is commensurate with the bank’s overall capacity to lend, the volume of lending inside the AA, and the volume of loans made to borrowers of various income levels or businesses of different sizes.

In reaching a conclusion regarding the lending test, we placed more weight on the level of small business lending than on real estate or consumer lending. Although a significant portion of the bank’s portfolio consists of one-to-four family real estate loans, the bank has originated few new loans during the last two years. In contrast, the bank had a higher volume of business originations. We also considered consumer originations because a very high volume of consumer loans are generated.

Table 1 shows the number and dollar amount of loans to businesses and farms as well as the income level of the borrowers for loans that FAB originated in 1996 in the AA. The bank achieved a high level of lending to small farms within the AA. Demographic information provided by Dunn & Bradstreet reports that there are only six farms within the AA. The bank generated five agriculturally related loans within the AA during 1996, all to farms with reported annual gross revenues less than \$1 million. The same Dunn & Bradstreet reports show that there are 405 businesses within the AA. Seventy-six percent of those reported annual gross revenues less than \$1 million. The bank generated a high volume of loans to those businesses in 1996. The substantial majority of business loans were to businesses with gross revenues under \$1 million.

Table 1

1996 Originations	Small Loans to Businesses			Small Loans to Farms			Grand Totals		
	COUNT #	%	AMOUNT (000'S)	COUNT #	%	AMOUNT (000'S)	COUNT #	%	AMOUNT (000'S)
Revenues <= \$1 Million	111	85%	3,446	5	100%	108	116	85%	3,554
Revenues > \$1 Million	20	15%	2,788	0	0%	0	20	15%	2,788
Total	131	100	6,234	5	100	108	136	100	6,342

Data Source: Bank Records

Table 2 shows the level of home mortgage originations during 1996 and year-to-date 1997. The level of the bank's performance is adequate because of the nature of the housing market and demographics of the area. The bank had limited demand for residential mortgages during 1996. During 1997, there has been more real estate activity but the numbers are still relatively small. Twenty-one percent of the real estate loans for 1997 were for refinance. Since 1990, there have only been 112 new housing units completed within Koochiching County. Based on information provided by community contacts and the U.S. Census, there is a higher demand for affordable rental housing than for home purchases; there is a very high percentage of vacant housing (23%); and local lenders have more dollars available than there is demand. All loans made in both years were for the purchase or refinance of a primary residence. All were located within the AA. The bank does not retain information as to home improvement loans.

Table 2

REAL ESTATE LOAN PRODUCT	1996		1997 (January - October)	
	Number	\$ (000's)	Number	\$ (000's)
<i>Government Home Purchase</i>	1	24	9	361
<i>Conventional Home Purchase</i>	7	497	18	904
<i>Refinance</i>	1	112	7	665
<i>Home Improvement</i>	0	0	0	0
TOTAL	9	633	34	1,930

Data Source: Bank Records

The bank's volume of consumer lending is reasonable considering the competition for consumer loans provided by the local credit union. We reviewed all miscellaneous, indirect dealer contracts, and term home equity installment loans made from May 1, 1997 to August 31, 1997. We selected this time period because the information was readily available, comprehensive, and representative of routine originations. We selected these products because they represent the three principle consumer products that the bank originates. During this period, the bank originated 234 of these loans totaling \$2.3 million. A significant majority of them, 214 or 91%, were made within the AA.

Distribution of Loans by Borrower Profile

The bank has a favorable record of originating small dollar loans to businesses and farms with annual gross revenues less than \$1 million. When the number of loans generated to these businesses is compared to the number of reported businesses and farms within the AA, the bank's level of performance is especially favorable. According to recent Dunn & Bradstreet information, there were a total of 309 small businesses and six small farms reported within the AA. Table 3 shows the number and dollar amount of loans in several size categories to businesses and farms with revenues of \$1 million or less. Note that virtually all commercial loans made were less than \$100,000 in size.

Table 3

Distribution of Small Loans to Businesses and Farms with Gross Annual Revenues Less Than \$1 Million International Falls Assessment Area - 1996								
Loan Size	BUSINESSES				FARMS			
	Number	Percent	Amount (000's)	Percent	Number	Percent	Amount (000's)	Percent
Less than \$100,000	106	95%	2,536	73%	5	100%	108	100%
\$100,000 to \$250,000	4	4%	545	16%	0	NA	0	NA
Greater than \$250,000	1	1%	365	11%	0	NA	0	NA
TOTALS	111	100%	3,446	100%	5	100%	108	100%

Data Source: Bank Records

The distribution of real estate loans among borrowers of different income levels is not favorable as Table 4 illustrates. However, the volume of real estate loans originated is small and therefore, should not be considered a significant product line. During the past two years, the percentage of real estate lending to low- and moderate-income borrowers is well below the assessment area's demographics. The table clearly shows that the bank generates most of its volume of real estate loans to upper-income bracket families.

Table 4 illustrates the data discussed in the preceding paragraph.

Table 4

Income Category	1996				January - October 1997				Percent of Families in Income Category
	Originations by Number		Originations by Dollar (000s)		Originations by Number		Originations by Dollar (000s)		
LOW-INCOME BORROWERS									12%*
Home Purchase or Refinance	1	11%	24	4%	1	3%	25	1%	
MODERATE-INCOME BORROWERS									22%*
Home Purchase or Refinance	1	11%	41	6%	4	12%	121	6%	
MIDDLE-INCOME BORROWERS									23%*
Home Purchase or Refinance	1	11%	25	4%	11	32%	554	29%	
UPPER-INCOME BORROWERS									43%*
Home Purchase or Refinance	6	67%	543	86%	18	53%	1,230	64%	

*The 1990 Census shows approximately 376 families in the assessment area below the poverty level. We adjusted the percentage (20%) of families who are low-income by excluding the families who are below the poverty level because it is highly unlikely they could qualify for bank loans. This resulted in approximately 12% of the low-income families (with incomes between 30% - 50% of the median) who could potentially become borrowers. For consistency purposes, we also adjusted the denominator (the number of total families within the AA) in our calculation of the percentage of families within the other income categories.

Data Sources: Bank Records and 1990 Census Data-U.S. Bureau of the Census

The bank's lending to borrowers of different income levels for consumer loans is reasonably proportional to the income level demographics of the AA with the exception of loans originated to low-income borrowers. The sample showed that loans made to low-income borrowers were significantly below the proportion of low-income families that live within the AA. The sample also supports our conclusion concerning real estate lending because of the seven term home equity loans reviewed, all were made to upper-income families. Our sample of installment loans was based on the 234 consumer loans originated within the AA from May 1, 1997 to August 31, 1997. We reviewed income information on 56 borrowers from this group which represents 24% coverage.

Table 5 highlights the results of our file sample on consumer installment loans.

Table 5

Income Level of Borrower	# of Loans	% by number	\$ of Loans	% by Dollar	% of Families Within AA
Low-Income	5	9%	23,859	4%	20%
Moderate-Income	13	23%	105,630	20%	20%
Middle-Income	12	21%	81,767	15%	21%
Upper-Income	16	29%	254,807	48%	39%
Unknown	10	18%	67,299	13%	NA
TOTALS	56	100%	\$533,362	100%	100%

Source: Bank records (sample of 56 installment loans out of 234 generated within the AA during a four month period in 1997)

Distribution of Loans by Geography

An analysis of the bank's lending by geography is not meaningful because the census tracts are similar. Within the AA, there are four middle-income BNAs and one upper-income BNA. There are no moderate-income census tracts and the one low-income census tract contains only 85 people, representing less than one-half of one percent of the AA's population. Nine of the twenty-five families living in this census tract fall below the poverty level and are, therefore, less likely to borrow money.

Community Development Lending

FAB has made a low level of community development loans; however, because of the economic conditions in Koochiching County, there are relatively few opportunities. Community contacts report that development agencies have more money available than demand for those programs. The bank has made two qualifying community development loans during the development period. One loan of \$34,000 helped keep a business in International Falls that employees LMI individuals, some of them home-based. Several employees purchased the business when the former owner moved some of the operations out of state. The other loan of \$75,568 is on a 36 unit facility that benefits LMI individuals from Koochiching County needing an assisted living facility.

Flexible Loan Programs

The bank offers a unique business program that serves as an alternate funding source for small business accounts receivable financing. In 1996 and 1997, the bank originated \$180,000 and \$215,000, respectively, in this type of financing called Business Manager Loans. During 1995, the bank originated three SBA loans totaling \$189,500. These loans were not included in the small business lending portion of the CRA Disclosure Statement.

INVESTMENT TEST

FAB has made an adequate level of qualified community development investments and grants in light of the limited opportunities for direct investment within the AA. In 1997, the bank made a commitment to donate \$2,500 over a five year period to foundation that works toward job creation and economic diversification in the greater North and Northeastern region of Minnesota. These funds were matched by another charitable foundation in St. Paul. During the evaluation period, FAB's affiliate, the Otto Bremer Foundation, made qualified grants totaling \$107,700 that benefitted low- and moderate-income individuals in the AA. These grants went to food shelves, provide day care services for Native Americans, an occupational development center that assists handicapped individuals obtain work, and home-buyer seminars and workshops. In 1997, grants of \$40,000 represented 5% of an average of annual income for the last three years. The Foundation granted \$25,000 in 1995, \$42,700 in 1996, and \$40,000 in 1997.

SERVICE TEST**Retail Banking Services**

The bank offers an effective delivery system that is reasonably accessible to all portions of the assessment area. The bank's only office is located in a middle-income BNA within the city of International Falls but this does not adversely affect the delivery of services to LMI individuals because most LMI households are located within the middle-income BNA. Most of the population of the AA lives in or near the city of International Falls. The only low-income BNA is located in the extreme southeast corner of Koochiching County and is sparsely populated. The bank has not opened or closed any offices.

FAB offers extended banking hours every other Thursday in the bank's lobby and on Saturdays at the drive-up window. There is a 24-hour ATM located on the bank's premises. The bank offers 24-hour telephone banking services, interpretation services in eight languages, and telephone banking for hearing impaired customers.

Community Development Services

The bank provides limited community development services. A community contact said that the community needs programs that provide credit counseling and information on effective household budgeting. Some recent services provided by bank personnel include:

- an employee participates in home-buyer seminars.
- an employee made a one-time presentation to a college level small business management class regarding obtaining financing for small businesses.

FAIR LENDING REVIEW

We did not identify any substantive violations of the anti-discrimination laws (Equal Credit Opportunity and Fair Housing).