



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Coleraine
Charter Number 8322**

**West Highway 169
Coleraine, Minnesota 55722**

**Comptroller of the Currency
Duluth Field Office
302 West Superior Street, Suite 307
Duluth, Minnesota 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.

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Institution's CRA Rating

This institution is rated "Satisfactory." The most critical factors supporting this rating include:

- The First National Bank of Coleraine (FNB) has a reasonable average quarterly loan-to-deposit ratio of 70% since its prior CRA evaluation.
- FNB actively lends to individuals of all income levels consistent with the demographics of the assessment area.
- FNB originates a majority of its loans, 75% by number and 76% by dollar volume, in its assessment area.

Description of Institution

FNB is a \$53 million bank with two office locations. The main office is located in Coleraine, Minnesota and the branch operates in nearby La Prairie, Minnesota. Both locations have drive-up windows, night depositories, and cash-dispensing automated teller machines (ATM). FNB's main office and branch are located in, and surrounded by, middle-income geographies.

FNB's lending focus is in residential real estate and consumer lending. According to its September 30, 2002 Report of Condition and Income, the bank has the following outstanding loan types by dollar: 1) residential real estate loans represent 57% of total loans; 2) consumer loans represent 22% of total loans; and 3) commercial loans represent 20% of total loans. Net loans represent 57% of total assets. Given this lending focus, this evaluation centered upon residential real estate and consumer lending activities.

FNB is 100% owned by Jan-Mar Holding Company, a \$53 million one-bank holding company headquartered in Coleraine, Minnesota. FNB has had no changes in its corporate structure since its last CRA evaluation.

FNB received a "Satisfactory" rating at its May 26, 1998 CRA evaluation. This evaluation assesses the bank's CRA activities from June 30, 1998 through September 30, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs in its assessment area.

Description of Assessment Area

FNB's assessment area (AA) includes six adjacent, middle-income block-numbering areas (BNAs) in Itasca County, Minnesota. All of the BNAs are in close proximity to FNB's main office and branch. The total population of the AA is 29,265, according to 1990 U.S. Census Data.

The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. The U.S. Department of Housing and Urban Development's 2002 updated statewide non-metropolitan statistical area median family income estimate for Minnesota is \$48,500.

The following table summarizes the income levels of individual BNAs and aggregate family data within the AA:

Income Distribution of Geographies and Families (Definition of family income levels can be found in 12 C.F.R. § 25.)								
Assessment Area	Number of Block Numbering Areas				Percentage of Families			
Six adjacent block numbering areas located within Itasca County.	Low Income	Moderate Income	Middle Income	Upper Income	Low Income	Moderate Income	Middle Income	Upper Income
	0	0	6	0	20%	18%	21%	41%

Source: U.S. Census Data (1990)

According to 1990 U.S. Census Data, the median housing value in the AA is \$48,809 and the average age of a home is 37 years. Owner-occupied units comprise 63% of all housing units in the AA. The AA has 14% of families with income below the poverty level, or income that is less than 30% of median family. Such income is less than \$14,550 per year. Rental units have an average gross rent of \$310 per month.

Major industries in the area include tourism, services, government, retail trade, and manufacturing. Major employers are Blandin Paper Company (900), Independent School District #318 (600), and Itasca Medical Center (386). Itasca County’s unemployment rate of 4.5% is higher than the Minnesota state rate of 3.7%.

Competition from other financial institutions in the area is strong. Including FNB, there are ten financial institutions operating in Itasca County. Based upon asset size, FNB ranks seventh out of these ten institutions. Based on deposit share, FNB ranks fourth with almost 8% of all deposits.

We did not identify any unmet credit needs in FNB’s AA through our contact with a local real estate agent and a review of other recent regulatory community contact data. Our contact stated that financing for borrowers with low- and moderate-incomes is the most immediate credit need in the area, specifically for first-time homebuyers. Our contact indicated that all area banks have demonstrated a willingness to provide residential and consumer financing.

Conclusions With Respect to Performance Criteria

Loan-to-Deposit Ratio:

FNB’s net loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and the AA’s needs. Its quarterly LTD ratio averaged 70.3% over 18 quarters from June 30, 1998 through September 30, 2002. The ratio has remained relatively constant during this period ranging from 65% to 79%. As of September 30, 2002, FNB’s quarterly LTD ratio was 64.9%. Its average quarterly LTD ranks second when compared to the average quarterly ratios of the two other banks of similar size chartered in Itasca County (banks with total assets of less than \$100 million). The average quarterly LTD ratios of these banks range from 43.6% to 85.1% with an average of 64.3% over the same time period noted above. FNB also sells residential real estate loans on the secondary market; the volume of loans originated and subsequently sold is not reflected in its quarterly LTD ratio. For the period including 1999, 2000, 2001, and 2002, the bank sold 124 loans totaling \$12 million.

Lending in Assessment Area:

FNB originates a majority of its loans to borrowers located within its defined AA. To establish this conclusion, examiners sampled 20 residential real estate loans and 20 consumer loans originated from June 30, 1998 through December 31, 2002. Approximately 75% by number and 76% by dollar were originated to individuals within the assessment area. The following table details loans in the assessment area by number and dollar volume:

LENDING WITHIN THE ASSESSMENT AREA BY NUMBER AND DOLLAR (000's)				
Type of Loan	Number of Loans	Percent of Loans by Number	Dollar of Loans (000s)	Percent of Loans by Dollar
Residential Real Estate	16 of 20	80%	\$828 of \$1,075	77%
Consumer	14 of 20	70%	\$218 of \$295	74%
Total	30 of 40	75%	\$1,046 of \$1,370	76%

Lending to Borrowers of Different Income Levels:

Overall, the distribution of loans reflects reasonable penetration to borrowers of different income levels. Residential real estate and consumer lending to low- and moderate-income borrowers demonstrates a level of performance.

□ Residential Real Estate Lending

FNB's residential real estate lending activities in the AA reasonably meet the demographics of the area. By number, loan originations to moderate-income borrowers are comparable to the demographics of the area. The bank did not originate any residential loans to low-income borrowers during this evaluation period. This lack of lending is attributed to the high volume of families in the AA with incomes below the poverty level (at 14% of families) who would be more likely to rent than own.

Examiners sampled 20 residential real estate loans originated within the bank's AA to establish these conclusions. Differentiation among residential real estate loans by type (purchase, refinance, and home improvement) was not feasible, as bank loan information was not sorted by specific type. The following table shows the bank's residential lending activity by borrower income level in comparison to the AA's demographics:

BORROWER DISTRIBUTION OF RESIDENTIAL LOANS BY INCOME LEVEL			
(Percentages are reflective of the portfolio as a whole)			
Borrower Income Level	Number of Loans	Percent of Loans by Number	Percent of Families
Low	0	0	20%
Moderate	4	20%	18%
Middle	10	50%	21%
Upper	6	30%	41%
Totals	20	100%	100%

In addition to the loans the bank keeps in its portfolio, FNB sells residential real estate loans on the secondary market. From December 31, 1998 through December 31, 2002 the bank sold 124 loans totaling \$12 million. Examiners did not analyze the distribution of these loans by borrower income.

□ Consumer Lending

Consumer lending activities in the AA meet the demographics for low-income borrowers and exceed the demographics for moderate-income borrowers. Examiners sampled 20 consumer loans originated within the bank’s AA to establish these conclusions. The following table compares the bank’s consumer lending activity by borrower income level to the demographics of the AA:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL (Percentages are reflective of the whole consumer loan portfolio)			
Borrower Income Level	Number of Loans	Percent of Loans by Number	Percent of Households
Low	5	25%	24%
Moderate	6	30%	16%
Middle	5	25%	17%
Upper	4	20%	43%
Totals	20	100%	100%

The bank’s commercial loan portfolio was not considered a primary product and was not evaluated during this review. Should this segment of the total loan portfolio continue to grow, however, future evaluations will likely include an assessment of commercial lending activities.

Geographic Distribution of Loans:

Analysis of lending by geographic distribution is not meaningful. The AA contains only middle-income BNAs.

Response to Complaints:

The bank has not received any CRA-related complaints since the last CRA examination dated May 26, 1998.

Other Information

An analysis of 1999, 2000, and, and 2001 public comments and consumer complaint information was performed according to the OCC’s risk-based fair lending approach. Based on the analysis of this information, the OCC decided that a comprehensive fair lending examination was not needed in conjunction with this CRA evaluation. The latest comprehensive fair lending examination was performed in 1998.