



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 19, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Mahnomen
Charter Number: 12941**

**103 North Main Street
Mahnomen, Minnesota 12941**

**Office of the Comptroller of the Currency
Alexandria Duty Station
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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.

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 Community Reinvestment Act (CRA) performance of **The First National Bank in Mahnomen** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 19, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The First National Bank in Mahnomen's rating is based on the following factors:

- ◆ The bank's record of extending credit to businesses of different sizes and to individuals of different income levels is good.
- ◆ The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- ◆ The majority of loans are extended within the bank's assessment area.
- ◆ The bank's loan-to-deposit ratio is reasonable.

The following table indicates the performance level of **The First National Bank in Mahnomon** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FIRST NATIONAL BANK IN MAHNOMEN PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		x	
Lending in Assessment Area		x	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		x	
Geographic Distribution of Loans		x	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank in Mahnomen (FNB) is a \$31.9 million bank located in northwestern Minnesota in Mahnomen County. FNB is located in the city of Mahnomen, which is also the county seat. FNB has an ATM on the premises and a drive-up teller window. The bank is owned by Mahnomen Bancshares, a one bank holding company.

FNB offers traditional loan and deposit products and services. Financial information as of March 31, 1997 indicates gross loans total \$14.4 million or 45% of total assets. The loan portfolio consists of commercial and industrial (31%), consumer instalment (29%), agriculture (23%), and residential real estate (17%) loans.

Primary competition in the assessment area includes five banks and a Farm Credit Services office. There are no legal or financial impediments limiting FNB's ability to help meet the credit needs of the community. The bank was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination, July 29, 1994.

DESCRIPTION OF THE FIRST NATIONAL BANK IN MAHNOMEN'S ASSESSMENT AREA

FNB's assessment area includes all of Mahnomen County and portions of Norman and Becker Counties. The area consists of four contiguous Block Numbering Areas (BNA's). Cities in the assessment area include Mahnomen, Twin Valley, Waubun, Ogema, and Gary. Population of the area is approximately 12,000 and stable.

The area median family income is \$21,437 or 59% of the out-state median income of \$36,200. The assessment area consists of two moderate and two middle income BNA's. Family incomes within the assessment area are: 33% low, 22% moderate, 21% middle, and 24% upper income. Approximately 25% of the population is below poverty level and 14% receive public assistance. The assessment area complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income areas.

Major employers include the Shooting Star Casino, the local school district, county government offices, the local hospital, and the agriculture industry. The local economy has been stimulated the last several years by the expansion of the Shooting Star Casino which has approximately 1,000 employees. The agriculture industry has experienced several poor growing seasons in recent years. The Mahnomen area farmers have been eligible for federal disaster assistance for the last six years due to poor crop production conditions.

FNB's assessment area includes the White Earth Indian Reservation. Large tracts of land on the reservation are owned by the White Earth Tribal Trust. Individual members of the reservation are not able to hold title to Trust land but can obtain use rights for residential sites and other purposes. FNB cannot perfect a mortgage on Trust owned real estate which results in no real estate lending in a portion of its assessment area. FNB has worked with the tribal council and reservation members to help meet their non-real estate credit needs. The analysis of consumer and business loans detailed in the **Conclusions** portion of the evaluation includes loans extended in all of the assessment area, including the White Earth Indian Reservation.

The primary credit needs of the area include residential real estate, agriculture, and small business loans. We determined this by contacting a local city government official.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

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

FNB has a good record of lending to individuals of different income levels and to businesses of different sizes. The following two tables illustrate lending patterns within the commercial/agriculture, consumer instalment, and residential real estate portfolios. The tables represent 186 loans totaling \$3,842,548. The loans sampled were originated from January 1, 1995 through June 1, 1997 and represent approximately 26% of the total portfolio.

Table One depicts the number and dollar volume percentages of loans extended to businesses of different sizes, as measured by annual sales. The table illustrates the bank's strong record of lending to businesses and farms of all sizes. The sample consists of 74 business and agriculture loans totaling \$2,389,474, representing 29% of commercial and agricultural originations.

Table One

Annual Sales	% of Number of Loans	% of Dollar Volume
< \$100,000	39%	33%
\$100,000 - \$250,000	34%	38%
\$250,000 - \$500,000	15%	10%
\$500,000 - \$1,000,000	5%	6%

Annual Sales	% of Number of Loans	% of Dollar Volume
> \$1,000,000	7%	13%

Table Two reflects FNB's record of lending to individuals of all income levels, including low- and moderate-income borrowers. The table represents 82 consumer auto loans totaling \$577,913, and 30 residential real estate loans totaling \$875,161. The samples represent 15% of the dollar volume of consumer auto loans and 52% of the dollar volume of residential real estate mortgages originated during the time period.

Table Two

Income Level	% of Families	Auto Loans		Residential Real Estate	
		% Number	% Dollar	% Number	% Dollar
Low	33%	39%	29%	23%	13%
Moderate	22%	29%	29%	30%	23%
Middle	21%	23%	26%	10%	8%
Upper	24%	9%	16%	37%	56%

Consumer auto lending patterns reflect FNB is extending credit to borrowers of all income levels. Residential real estate lending to low income individuals is low. However, a high percentage of the population is living below the poverty level and the amount of lower-cost housing stock is low. Therefore, the level of lending to all income categories is consistent with the area's income demographics and credit opportunities.

Lending in the Assessment Area

FNB originates a majority of its loans within the assessment area. FNB codes its loan originations by BNA. An internal analysis of loans originated from January 1, 1996 through June 1, 1997 indicates the bank extended 85% of the number and 72% of the dollar volume of loans within its assessment area. Our sample of business and consumer loans verified the bank's analysis.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment area. Table Three reflects loan dispersion in the assessment area by BNA type. The table illustrates all loans originated from January 1, 1996 through June 1, 1997, which represents 482 loans totaling \$3,568,615. The table compares the

percentage of the number and dollar volume of loans to the different BNA types and to the percentages of the population residing within the BNA's.

Table Three

BNA Type	% BNA's	% of Population	% Number of Loans	% Dollar Volume of Loans
Moderate	50%	48%	46%	38%
Middle	50%	52%	54%	62%

Table Three reveals FNB is lending in all income tracts and the distribution of loans is consistent with the population residing within the different BNA'S.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable. FNB's ratio has been stable and averaged 54% since the last CRA examination, July 29, 1994. The ratio ranks the bank fifth lowest out of six banks in its assessment area with ratios for the other banks ranging from 33% to 87%. Our analysis also compared FNB's ratio to other similarly sized, rural banks located in northwest Minnesota. FNB ranked sixteenth out of twenty banks in this peer group, with ratios ranging from 25% to 87%.

The loan-to-deposit ratio appears low. However, FNB has historically had a large volume of casino, tribal, and public funds on deposit. These deposits are considered more volatile than consumer deposits and are not used to fund longer-term loans. Therefore, FNB's loan-to-deposit ratio would be higher and closer to peer bank ratios if it were not for these larger, volatile deposits.

Record of Compliance with Anti-discrimination Laws

Based on our review, the bank is complying with anti-discrimination laws. We found no substantive violations of the fair lending laws.

Record of Response to Complaints

FNB received no complaints concerning its performance in meeting assessment area credit needs.