



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 8, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Bemidji
Charter Number 5582**

**502 Minnesota Avenue
Bemidji, MN 56601**

**Comptroller of the Currency
North Dakota & NW Minnesota
1309 Hwy 29 N, Suite 102
Alexandria, MN 56308**

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 Outstanding.

The Lending Test is rated: Outstanding

The Community Development Test is rated: Outstanding

The First National Bank of Bemidji's (FNB) lending performance exhibits an excellent response to the credit and community development needs of the bank's assessment area.

- A substantial majority of the bank's loans are made within the assessment area.
- The distribution of loans to borrowers of different incomes is excellent.
- The geographic distribution of small business loans and consumer loans is excellent.
- The bank's community development performance demonstrates an excellent responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, given the bank's capacity and the availability of the opportunities in the assessment area.

SCOPE OF EXAMINATION

FNB's CRA examination is based on the review of the bank's primary loan product which are home mortgage loans, consumer loans, and small business loans (those with an origination amount of \$1 million or less). The evaluation period included originations in 2004, 2005, and 2006. Community development loans, qualified investments, and community development services evaluation period is October 22, 2002 through December 31, 2006.

The lending test consists of a random sample of 40 loans from each primary loan type. The first 20 loans from each loan type were used to determine the bank's lending within the assessment area with an additional 20 loans (all made in the assessment area) added to the sample for use in the geographic distribution and borrower profile tests.

The following is a table showing the breakdown of loan originations for the evaluation period, used to determine the bank's primary loan types:

Table 1: FNB Loan Originations in 2004, 2005, and 2006		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial Loans	13%	39%
Agricultural Loans	5%	4%
Home Mortgage Loans	17%	36%
Consumer Loans	65%	21%

Primary community needs as identified by community contacts include housing and job creation throughout the bank's AA.

DESCRIPTION OF INSTITUTION

FNB is a \$398 million institution located in Bemidji, Minnesota. The bank is wholly owned by First Bemidji Holding Company (FBHC), a one-bank holding company also located in Bemidji, Minnesota. FBHC's assets consist primarily of FNB. The bank does not have any operating subsidiaries and affiliate activities do not affect this evaluation.

FNB has four locations all in Bemidji, Minnesota. The main office and one branch are located in a moderate-income census tract with two additional branches in middle-income census tracts.

FNB is a full-service bank offering a variety of loan and deposit products. The bank's focus is on retail lending with 82% of its loans being consumer or home mortgage loans. As of September 30, 2006, net loans represent 56% of total assets with 46% of the loans being commercial, 38% of the loans being home mortgage, and 14% being consumer loans. The bank's Tier 1 Capital ratio is 13.44%.

The bank is located in a non-metropolitan statistical area in northern Minnesota 134 miles from Grand Forks, North Dakota and 240 miles from Minneapolis, Minnesota. A portion of the bank's assessment area includes the Red Lake and Leech Lake Indian Reservations.

FNB's CRA performance was rated "Satisfactory" during the last CRA examination dated October 22, 2002. There are no legal, financial, or other factors impeding FNB's ability to help meet the credit needs of the community.

DESCRIPTION OF BEMIDJI ASSESSMENT AREA

The FNB's assessment area (AA) consists of eleven census tract(s) (CT) in the counties of Beltrami, northwestern Cass, and northern Hubbard. One CT is low-income, four are moderate-income, and six are middle-income. The AA does not include any upper-income CT. The largest city in the AA is Bemidji with a population of 13,000. Other cities include Cass Lake, Red Lake, and Blackduck. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

The low-income CT consists primarily of the Red Lake Indian Reservation. This area experiences high unemployment rates of 39% compared to the 5% overall for the AA and 4% statewide. In addition, one of these moderate-income tracts includes a portion of the Leech Lake Indian Reservation, which has an unemployment rate of 31%. The overall AA has a poverty level of 17% of households compared to the national average of 12%.

The Bemidji area economic conditions are stable with major employers including the public school system, Bemidji State University, and Northern County Health Services. The median family income is \$55,100 with an average housing value of \$73,000.

FNB experiences competition from other community financial institutions in and around the AA. However, FNB holds the majority of the deposit market share with 24% for Beltrami, Cass, and Hubbard Counties.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank's overall performance under the lending test is rated "Outstanding".

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and credit needs of the AA. The average net LTD ratio over the last 16 quarters is 65%.

Similarly situated financial institutions in and around the bank's AA have average ratios ranging from 58% to 95%.

Lending in Assessment Area

FNB's overall lending within the AA is good with a substantial majority of loans originated inside the AA. The following table shows the loan originations by number and by dollar volume:

Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	17	85%	3	15%	20	2,924	89%	360	11%	3,284
Home Mortgage	18	90%	2	10%	20	1,490	92%	130	8%	1,620
Consumer	16	80%	4	20%	20	146	70%	63	30%	209
Totals	51	85%	9	15%	60	4,560	89%	553	11%	5,113

Source: Loan Sample.

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

FNB's overall lending activity to borrowers of different incomes and businesses of different sizes is excellent.

Small Business Loans

The borrower distribution of small loans to businesses is good. Small loans are defined as a loan with an origination amount of \$1 million or less. The portion of FNB's loans to small businesses (businesses with revenues of \$1 million or less) is comparable to the demographic information for the AA. Ninety percent of the small business loans were to businesses with revenues of less than \$1 million dollars compared to the demographic information of 93.6% of all businesses being categorized as small businesses in the AA. The following table provides details of the bank's lending of small business loans.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	93.6%	6.4%
% of Bank Loans in AA by #	90%	10%
% of Bank Loans in AA by \$	85%	15%

Source: Loan sample; Dunn and Bradstreet data.

Home Mortgage Loans

The borrower distribution of FNB’s home mortgage loans among borrowers of different income levels within the AA is excellent. The bank’s AA, as previously discussed, has a higher number of families below the poverty level than the state and national average. It is difficult for low-income borrowers to qualify for the purchase of a home. The bank originated 10% of its home mortgage loans to low-income borrowers compared to the 26% of the families in the AA. FNB, however, exceeds the demographic information for lending to borrowers at the moderate-income level with 33% of the number of loans originated to these borrowers. The table below provides details of the bank’s home mortgage lending.

Table 2a - Borrower Distribution of Residential Real Estate Loans in Bemidji AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Home Mortgage Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
	26%	10%	19%	33%	23%	17%	32%	40%

Source: Loan sample; U.S. Census data.

Consumer Loans

The borrower distribution of consumer loans to borrowers of different income levels within the AA is excellent. FNB does an excellent job of meeting the credit needs of low- and moderate-income borrowers for consumer loans. The demographic information indicates 27% of the AA households are low-income and 18% are moderate-income. The bank exceeded this for both categories with 38% of consumer loans made to low-income and 30% made to moderate-income borrowers. The following table provides details of the bank’s consumer lending activity:

Table 2b - Borrower Distribution of Consumer Loans in Bemidji AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Consumer Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	27%	38%	18%	30%	20%	25%	34%	7%

Source: Loan sample; U.S. Census data

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent penetration throughout the AA. Small business and consumer loans exceed the demographic information for FNB’s AA.

The low-income tract in the AA is located on the Red Lake Indian Reservation. This reservation is a closed reservation meaning the bank is unable to obtain a mortgage on any property located in this area. This severely restricts the bank’s ability to lend in this tract particularly for home mortgage and commercial real estate loans. Therefore, an analysis of the lending in the low-income tract was not meaningful for small business or home mortgage loans. FNB is successful in its efforts with community development loans and services on the Reservation, which are

discussed under the Community Development test.

Small Business Loans

The geographic distribution of small business loans is excellent throughout the bank’s AA. Based on demographic information, 27% of the businesses are located in moderate-income tracts. Bank loans extended to businesses located in these areas is 37.5%. Refer to the table below for a breakdown of lending in the various CT within the AA.

Table 3 – Geographic Distribution of Loans to Businesses in Bemidji of AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	4%	0%	27%	37.5%	69%	62.5%	NA	NA

Source: Loan sample; D and B data.

Home Mortgage Loans

The geographic distribution of home mortgage loans is adequate. Lending in the moderate-income tracts is 5% which is below the demographic statistics of 22% of owner-occupied housing within the AA. Given the high poverty rate in the AA, this is considered adequate. In addition, two moderate-income tracts are located in the southern portion of the AA and are also served by other financial institutions in those CT.

Table 3a - Geographic Distribution of Residential Real Estate Loans in Bemidji AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	7%	0%	22%	5%	71%	95%	NA	NA

Source: Loan sample; U.S. Census data.

Consumer Loans

The geographic distribution of consumer loans is excellent and exceeds the demographic information. The low-income tract includes 8% of the AA households and consumer loans originated by FNB in this area are 22.5%. In addition, 25% of the households are located in the moderate-income tracts with a comparable 17.5% of the consumer loans extended to households in these areas. Refer to the table on the following page for details of the geographic distribution of consumer loans.

Table 3b - Geographic Distribution of Consumer Loans in Bemidji AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	8%	22.5%	25%	17.5%	67%	60%	NA	NA

Source: Loan sample; U.S. Census data

Responses to Complaints

The bank has not received any CRA related complaints since the previous evaluation.

Community Development Test

The bank's performance under the Community Development Test is rated "Outstanding". FNB participates in community development (CD) activities through the origination of CD loans, participation in CD services, and through investments in the form of a bond, a mutual fund, and qualifying donations. Because of the location of the bank, opportunities are limited, particularly for investments. CD activities were considered from October 22, 2002 (date of the last CRA evaluation) through December 31, 2006.

Community Development Loans

FNB's performance in extending CD loans is excellent. The bank originated 21 CD loans in its AA totaling \$4.5 million during the evaluation period. This is equivalent to 8.6% of the bank's Tier 1 Capital as of September 30, 2006. The following are some of the CD loans:

- A loan for \$100 thousand for a tribal office building.
- Two loans totaling \$55,726 for affordable housing in a moderate-income CT.
- An operating loan for \$1 million for a local Indian tribe in a moderate-income CT.
- A loan for \$250 thousand for the economic development in a low-income CT.
- A loan for \$100 thousand for a tribal college targeting low- and moderate-income individuals.

Qualified Investments

The bank's level of qualified community development investments demonstrates excellent responsiveness to the community development needs of the AA. FNB has one bond for \$75 thousand outstanding during the evaluation period for economic development in a moderate-income CT. In addition, FNB invested \$500 thousand in a mutual fund which consists of home mortgages from the bank's AA made to low- and moderate-income borrowers.

The following table summarizes the bank’s community development investment activity during the evaluation period:

Table 4 – Community Development Investments in the Bemidji AA		
Type	Number	Dollar Amount (000’s)
Donations	68	112
Investments	2	575
Total	70	687

Community Development Services

FNB’s participation in community development services is excellent. In addition to the basic banking deposit and loan products, bank employees participate in a variety of education and other outreach activities throughout the AA that benefit low- and moderate-income individuals and help promote economic development.

During the evaluation period, a total of 63 bank employees and officers participated in 126 various types of CD services. These included organizations such as Habitat for Humanity, Bemidji Food Shelf, House of Hospitality, and serving on the advisory board for the Small Business Development Center.

Bank employees and officers are also involved in various loan programs to benefit the low- and moderate-income borrowers and small businesses. The following are some of these programs:

- Home Stretch Workshop is a seminar conducted by FNB loan officers. The program targets low- and moderate-income individuals and provides information on how to obtain a home mortgage loan as well as basic home ownership information.
- Homeownership 101 is designed to educate the public about programs available for home mortgages specifically for low- and moderate-income borrowers.
- Two bank officers attended the Northern Minnesota Economic Development Summit during the evaluation period. This Summit promotes the economic development of three Indian Reservations in and around the bank’s AA. Two of the reservations are included in the bank’s AA with one located in a low-income CT and one located in a moderate-income CT.

FNB has four locations and eight ATMs. Two of the bank locations and one ATM are located in a moderate-income tract. This helps to reach the moderate-income individuals in the bank’s AA.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.