



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 18, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Western National Bank
Charter Number 6352

210 2nd Street, NW
Cass Lake, MN 56633

Office of the Comptroller of the Currency

MINNEAPOLIS (DULUTH)
302 West Superior Street, Suite 307
Duluth, MN 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.

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

The major factors supporting this rating include:

- Strong performance in lending to small businesses and individuals with low- and moderate incomes within the assessment area.
- Strong performance in lending to moderate-income census tracts within the assessment area.
- Strong performance in lending locally, within the assessment area.
- Reasonable lending volume, as demonstrated by a reasonable loan-to-deposit ratio.

Support for and details of these conclusions are contained throughout the remainder of this Public Evaluation.

SCOPE OF EXAMINATION

This examination entailed a full scope review of Western National Bank's (WNB's) sole assessment area. We assessed performance over an evaluation period of December 31, 2007 through March 31, 2009. We focused our assessment upon WNB's primary lending products, commercial loans and residential real estate loans. Our loan sample of these products included a judgmental selection of 25 commercial loans for various purposes and 23 residential real estate loans for various purposes. These loans originated throughout the evaluation period. We used the information gained from this sample in our assessment of the bank's performance.

DESCRIPTION OF INSTITUTION

WNB is a \$32 million national bank located in northern Minnesota. The bank operates one full-service office and one cash-dispensing automated teller machine (ATM) in Cass Lake, Minnesota. The ATM is located at the bank. The sole office is located in a moderate-income census tract.

WNB is owned by Western Bancorporation, Inc., a two-bank holding company. Affiliates include Western National Bank, Duluth, Minnesota and Premier Credit Corporation (currently not active). Affiliate activities have no significant impact upon WNB's CRA performance and our assessment focused solely upon WNB's activities.

The bank's business focus is commercial and residential real estate lending. As of March 31, 2009, WNB's loan portfolio was comprised of 49% commercial (including commercial real estate) loans, 32% residential real estate loans, and 19% consumer loans. Net loans represent 85% of total assets.

WNB received a “Satisfactory” rating at its October 27, 2003 CRA evaluation. There are no financial, legal, or other factors which impede the bank’s ability to meet the credit needs of its assessment area. Other information about the bank is included in its Public File.

DESCRIPTION OF ASSESSMENT AREA

WNB’s assessment area (AA) consists of ten whole census tracts in portions of three adjacent Minnesota counties. Generally, the AA includes the southern half of Beltrami County (census tracts 9501, 9502, 9503, 9506, 9507 and 9509), the northwestern portion of Cass County (census tracts 9605 and 9612), and the northeastern part of Hubbard County (census tracts 9701 and 9703). The 2000 U.S. Census estimated the AA’s population at 42,933 persons.

The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. The table below highlights that the AA is comprised of three moderate- and seven middle-income geographies. The table also highlights the distribution of families by income levels within the AA.

Distribution of Census Tracts and Families by Income Level								
	Number of Census Tracts				Percentage of Families			
	Low	Mod	Mid	Upper	Low	Mod	Mid	Upper
Assessment Area	0	3	7	0	22%	19%	24%	35%

Source: U.S. census data (2000).

Including WNB, there are nineteen financial institutions located in Beltrami, Cass, and Hubbard counties. Competition from other financial institutions is moderate. Limited economic development in the AA and a seasonally fluctuating deposit base presents unique challenges to WNB’s operations.

Major employers in the assessment area include the Minnesota Chippewa Tribe, Leech Lake Band of Chippewa, Lamb-Weston/RDO Frozen, North Country Health Services, and St. Joseph’s Area Health Services. Industries in the area include manufacturing, service, retail, county government, and medical. The area also relies heavily on tourism, and there are several resorts, hotels, and motels in the AA. For March 2009, the Department of Labor reports the unemployment rates for Beltrami, Cass, and Hubbard Counties at 10.5%, 14.1% and 12.5%, respectively. These unemployment levels are well above the 8.2% reported for the State of Minnesota and the 8.9% reported for the United States. Updated 2008 median family income for Minnesota's Non-Metropolitan Statistical Area was \$56,700.

We conducted one routine community contact during this evaluation and reviewed three others conducted in 2007 and 2008 by examiners during CRA evaluations of other national banks in the area. We used this information to help identify the credit needs of the AA, unique characteristics of the AA, and perceived performance of the financial institutions within the AA. The contacts indicated that the credit needs of the community are for small business, economic development, and affordable housing. These needs reasonably fit the product lines offered by WNB. The contacts also reported favorable perceptions regarding the lending efforts of the local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

WNB's net loan-to-deposit (LTD) ratio is reasonable and reflects satisfactory performance. The bank's LTD ratio averaged 61% over the 22 quarters since the last CRA examination. This ratio ranged from a quarterly low of 47% (third quarter 2008) to a quarterly high of 81% (second quarter 2005), and ended at 54% March 31, 2009. The bank's LTD ratio variations are due to seasonal fluctuations of its deposit base. WNB's quarterly average LTD ratio ranks fourth among and is in line with the average of five similarly sized banks operating within the AA, as highlighted in the following table.

Loan-to-Deposit Ratio Comparison		
Institution	Assets (000)	Quarterly Average LTD Ratio
Citizens State Bank of Kelliher	\$15,291	78%
First National Bank, Bagley	\$69,630	70%
First State Bank of Clearbrook	\$32,152	66%
Western National Bank	\$32,024	61%
The Northern State Bank of Govnick	\$34,848	26%
Average of Peer Group	\$36,789	60%

Source: Call Report Data.

Lending in Assessment Area

WNB originated a substantial majority of its loans within its AA. Our sample of originations found nearly all loans were made with the AA; this represents strong performance. The following table illustrates the breakdown by primary product, number of loans, dollars of loans, and percentages of the same made within the AA.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total (000)
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Commercial	24	100	0	0	24	1,904	100	0	0	1,904
Residential Real Estate	22	96	1	4	23	1,388	98	27	2	1,416
Totals	46	98	1	2	47	3,292	99	27	1	3,319

Source: Loan sample.

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

WNB's overall distribution of loans within the AA to businesses of different sizes and individuals of different income levels is excellent. Both commercial and residential real estate lending exceed the demographics and represent strong performance in lending to small businesses and individuals with low and moderate incomes.

The following table highlights WNB's borrower distribution of commercial loans. Even with the amount of businesses that do not report demographic revenue levels, it is clear that WNB's commercial lending efforts are focused upon lending to small businesses within the AA.

Borrower Distribution of Loans to Businesses				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	58	4	38	100%
% of Bank Loans in AA by #	92	8	0	100%
% of Bank Loans in AA by \$	98	2	0	100%

Source: Loan sample; Dunn and Bradstreet..

WNB's distribution of residential real estate loans to borrowers of different income levels reflects excellent penetration to low-and moderate-income borrowers. This lending performance exceeds the demographics of the AA and represents strong performance.

The following table highlights WNB's strong distribution of residential real estate loans to borrowers of different income levels, especially those with low-and moderate-incomes, compared to the demographics of the AA.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential Real Estate	22	23	19	27	24	32	35	18

Source: Loan sample; U.S. Census data (2000).

Geographic Distribution of Loans

WNB’s geographic distribution of loans in the assessment area is excellent. Commercial and residential real estate lending exceeds the demographics of the AA, particularly in lending to moderate income areas, and represents strong performance. Our sample of commercial and residential real estate originations within the AA identified no lending gaps of concern. Our sample and the bank’s loan trial note lending in all census tracts of the AA.

The geographic distribution of commercial originations exceeds the demographics of the AA by number and dollar. The following table highlights WNB’s commercial loan originations by number in comparison to the demographics of the AA:

Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	0	0	23	79	77	21	0	0

Source: Loan sample; U.S. Census data (2000).

The geographic distribution of residential real estate originations exceeds the demographics of the AA by number and meets the demographics by dollar. The following table highlights WNB’s residential real estate loan originations by number in comparison to the demographics of the AA:

Geographic Distribution of Residential Real Estate Loans								
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
Residential Real Estate	0	0	18	41	82	59	0	0

Source: Loan sample; U.S. Census Data (2000).

Responses to Complaints

There have been no CRA-related public complaints since the last CRA examination.

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.