



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

## **PUBLIC DISCLOSURE**

November 26, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank of The Lakes  
Charter Number: 15309

2445 Shadywood Road  
Navarre, MN 55392

Office of the Comptroller of the Currency

Minneapolis North  
920 Second Avenue South Suite 800  
Minneapolis, MN 55402

**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 Satisfactory.**

First National Bank of The Lakes is responsive to its community's needs including low- and moderate-income neighborhoods.

- The majority of the bank's loans were originated to customers within their assessment area.
- The distribution of loans to borrowers reflects a reasonable penetration among businesses of different sizes and individuals of different income levels.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

## **SCOPE OF THE EVALUATION**

We assessed First National Bank of The Lakes record of meeting the credit needs of the entire community, including low- and moderate-income neighborhoods consistent with the provisions set forth in the Community Reinvestment Act (CRA) for the period beginning December 18, 2002 and ending September 30, 2007. In order to determine the bank's lending performance, we selected primary products based on dollar and number volume of originations for the period beginning January 1, 2005 and ending September 30, 2007. We determined that commercial and consumer loans are the bank's primary products. We selected a random sample of 20 loans from each of the primary products in order to evaluate lending within the assessment area, borrower distribution, and geographic distribution. We used 2000 census information for demographic comparison purposes.

## **DESCRIPTION OF INSTITUTION**

First National Bank of the Lakes (FNB) is headquartered in Navarre, MN. It is owned by a single-bank holding company, Orono Financial. The bank's main branch is located in Navarre. The bank has four branches in the AA. The branches are located in Navarre, Minneapolis (in the Baker Building and the area around Uptown) and Richfield. The bank has ATMs located onsite at the Uptown and Richfield branches. No branches were opened or closed during this evaluation period.

FNB is a small community bank that specializes in small business banking and consumer lending. Commercial loan products include commercial mortgages, equipment loans and working capital loans. Products available to small businesses include guaranteed loan programs through the SBA. Consumer loan products include home equity loans, installment loans, overdraft protection and personal loans. Based on the volume of originations, business and consumer loans were determined to be primary products.

As of September 30, 2007, FNB had \$61 million in total assets and \$54 million in total deposits. The bank's loan portfolio was comprised of the following loan types by outstanding dollar volume on September 30, 2007: commercial and commercial real estate (57%), consumer (41%), residential real estate (1%), and other (1%). FNB's loan portfolio totaled \$30 million or 49% of total assets.

FNB received a "Satisfactory" rating at its December 18, 2002 CRA evaluation. There are no legal or financial constraints on FNB that impede the bank's ability to meet community credit needs.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The bank's assessment area (AA) includes all census tracts (CTs) located in Hennepin County. Hennepin County is located in the Metropolitan Statistical Area (MSA) #33460. There are 298 census tracts in the AA. The AA is comprised of 37 low-income tracts, 71 moderate-income tracts, 110 middle-income tracts, 79 upper-income tracts and 1 not applicable (N/A) tract. The Minneapolis/St Paul International Airport is located in the N/A tract. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate- income census tracts.

The 2000 U.S. Census population of the AA was 1,116,200. The 2007 HUD Estimated Median Family Income was \$77,600. The AA consists of 18.48% low-income families, 18.44% moderate-income families, 23.72% middle-income families, and 39.36% upper-income families. The 2000 U.S. Census data indicates that 7.44% of households in the AA are below the poverty level. According to the Minnesota Department of Employment and Economic Development, the October 2007 unemployment rate for Hennepin County was 4% in October 2007. This was lower than the Minnesota unemployment rate of 4.1% and the U.S. unemployment rate of 4.4%.

Hennepin County has a strong diversified economy. The economic diversity has historically limited the impact of economic downturns. Major industries include retail sales, manufacturing, health services, professional services, insurance and financial industries. The University of Minnesota, Hennepin County Offices, Fairview University Medical Center and Methodist Hospital are the top employers in the region.

Competition from other financial institutions in the AA is strong. There are 78 financial institutions operating in Hennepin County. The bank has .16% of the MSA's deposit market share. Two large banks hold 68% of the deposit market share in the MSA.

We contacted a local business organization to learn more about the condition of the local economy and their perceptions on the community's credit needs. The contact indicated that the local financial institutions are meeting the financial needs of the community. The contact described the local economy as stable and indicated the majority of local businesses have annual revenues of less than \$1 million.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's net loan-to-deposit ratio (LTD) is reasonable based on the bank's financial capacity and available lending opportunities. From December 31, 2002 to September 30, 2007, the bank's quarterly LTD ratio ranged from 48% to 62% and averaged 56%. The bank's LTD ratio increased since our last review.

The bank's LTD is slightly below the average loan to deposit ratio for similarly situated banks. Similarly situated institutions include banks with a presence in Hennepin County and have total assets ranging from \$40 million to \$80 million. The average LTD ratios for similarly situated banks over the same period ranged from 28% to 123% and averaged 72%.

### Lending in Assessment Area

The majority of the bank's loans originated in their AA. To assess the lending in the AA, we pulled a random sample of business and consumer loans originated between January 2005 and September 2007. The bank originated 80% of those loans by number within the AA.

Lending in Hennepin County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	18	90%	2	10%	20	470,829	92.2%	39,595	7.8%	510,424
Consumer	14	70%	6	30%	20	178,614	78.2%	50,016	21.9%	228,630
Totals	32	80%	8	20%	40	649,443	87.9%	89,611	12.1%	739,054

Source: Loan sample.

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

FNB's lending to businesses of different sizes and borrowers of different incomes is reasonable. To assess the bank's performance, examiners selected a sample of 20 business loans and 20 consumer loans originated in the AA between January 2005 and September 2007.

The bank's record of lending to businesses of different sizes is reasonable. Based on our sample, the bank originated 85% of its loans to businesses with revenues less than \$1 million. The gross annual business revenues of sampled loans ranged from \$19 thousand to \$2 million.

<b>Borrower Distribution of Loans to Businesses in Hennepin County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.90%	7.48%	27.62%	100%
% of Bank Loans in AA by #	85%	15%		100%
% of Bank Loans in AA by \$	79.2%	20.8%		100%

Source: Loan sample; 2006 Business Demographic Data

The bank's distribution of consumer loans among borrowers of different income levels based on demographics of the AA is excellent. Based on 2000 U.S. Census information, 23.3% of the households in the AA are low income and 18.3% of the households are moderate income. Based on our sample, the bank originated 60% of its consumer loans to low- and moderate-income households.

<b>Borrower Distribution of Consumer Loans in Hennepin County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	23.3%	40%	18.3%	20%	19.9%	10%	38.6%	30%

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

### Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion of loan originations in the bank's AA. To assess the bank's performance in this area, examiners selected a sample of 20 business loans and 20 consumer loans originated in the AA between January 2005 and September 2007.

The bank had excellent dispersion of business loans throughout the AA. Business lending in low-income tracts was 15% by number compared the demographic of 7.1%. Business lending in moderate-income tracts was 20% by number compared to the demographic of 16.7% of businesses located in moderate-income census tracts.

<b>Geographic Distribution of Loans to Businesses in Hennepin County*</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Business Loans	7.21%	15%	16.76%	20%	36.91%	35%	26.51%	30%

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

\*One tract was N/A.

The bank has a reasonable dispersion of consumer loans throughout the AA. Consumer lending in low-income tracts was 0% by number compared to the demographics of 8.1% of households located in low-income tracts. Consumer lending in moderate-income tracts was 10% by number compared to the demographic of 22.7% of households located in moderate-income tracts.

The conspicuous gaps in the geographic distribution of the bank’s consumer loans are attributable to the location of the bank’s branches and the bank’s strategic plan. The Navarre, Minneapolis (Baker) and Richfield branch locations are located in middle-income tracts. The Minneapolis (Uptown) branch location is located in an upper-income tract. Although two branches have low-or-moderate tracts adjacent, those CTs are sparsely populated and have high poverty levels. In addition, the bank does not actively market their consumer products. The bank’s consumer business is comprised primarily of local customers and referrals. The bank focuses their marketing efforts on business lending throughout Hennepin County.

<b>Geographic Distribution of Consumer Loans in Hennepin County*</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Consumer Loans	8.12%	0	22.67%	10%	39.75%	35%	29.46%	55%

*Source: Loan sample; 2000 U.S. Census data.*

*\* One tract was N/A.*

## **Responses to Complaints**

No CRA related complaints have been reported 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.