



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 3, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of The North
Charter Number 16871

510 Main Street
Sandstone, MN 55072

Office of the Comptroller of the Currency

MINNEAPOLIS NORTH
222 South 9th Street, Suite 800
Minneapolis, MN 55402-3393

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 North is satisfactorily meeting the credit needs of its assessment area. This is best demonstrated by:

- The origination of a majority of its loans within its assessment area.
- Lending to residential real estate borrowers of different income levels is reasonable.
- Lending to businesses of different sizes is reasonable.
- Reasonable loan volume, as evidenced by a quarterly average loan-to-deposit ratio that is comparable to other local banks of similar size.

DESCRIPTION OF INSTITUTION

First National Bank of the North (FNBN) is a \$63 million bank located in Sandstone, Minnesota. The bank is located approximately sixty miles north of the Minneapolis/St. Paul metropolitan area and seventy miles south of the Duluth metropolitan area. In addition to the main office in Sandstone, the bank operates full-service branch locations in Askov, Kerrick, and Hinckley, Minnesota. The bank does not operate any deposit-taking automated teller machines (ATM's). FNBN's main office and branches are located in middle-income geographies.

FNBN's primary lending products include residential real estate and business loans. As of 9/30/08, FNBN's \$47 million loan portfolio consisted of \$20 million in residential real estate loans (43%), \$18 million in commercial and commercial real estate loans (38%), \$5 million in consumer loans (11%), and \$4 million in agricultural loans (8%). Total net loans represent 76% of total assets. For purposes of this evaluation, we considered residential real estate and commercial loans to be the primary product lines.

FNBN received a satisfactory rating at its October 8, 2003 CRA evaluation. There are no legal, financial, or regulatory constraints on FNBN that would inhibit its CRA performance.

DESCRIPTION OF ASSESSMENT AREA(S)

FNBN's assessment area (AA) is composed of 13 census tracts located in east central Minnesota, including 2 in Carlton County, 3 in Kanabec County and all of Pine County. In the AA, all census tracts are designated as middle income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income geographies.

According to the 2000 U.S. Census Data, the total population for the assessment area is 50,680 persons. Approximately 73 percent of the housing units in the AA are

occupied, with 61 percent owner-occupied. The 2000 Census Data reported a Median Family Income of \$45,051, while the updated Department of Housing and Urban Development's (HUD) 2008 Median Family Income is \$57,038. The AA has approximately 10.23% of families reporting income below the poverty level (less than 30 percent of the Median Family Income). The following table summarizes the income levels of the geographies and families located within the bank's AA:

2008 Income Distribution of Geographies and Families							
Number of Census Tracts				Percentage of Families by Income Level			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
0	0	13	0	18.39%	19.86%	25.34%	36.41%

Source: U.S. Census Data (2000)

Economic conditions within the AA are stable. Unemployment in the AA is 6.69 percent as of November 2008, which is higher than the average of the state of Minnesota of 5.9 percent and the national average of 6.1 percent. Major employers in the AA are the Grand Casino and Resort in Hinckley, Pine County Medical Center, GS Power Company, Northern States Power Company, and Votech Community College in Pine City.

Examiners contacted a city official to gain additional perspective on the AA. The contact indicated that the primary credit need of the community is residential real estate (primarily refinance and home improvement). It was the contact's opinion that the financial institutions in the area are adequately meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBN's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. From September 20, 2003 to June 30, 2008, the bank's quarterly LTD ratio ranged from 66% to 83% and averaged 76%. This ratio is consistent with past performance and ranks second from the bottom among similarly situated banks. Similarly situated banks include financial institutions with main offices or branches located in the AA and total assets between \$50 million and \$130 million.

Lending in Assessment Area

FNBN's performance of lending in its AA is excellent. We selected a random sample of 20 residential real estate loans and 20 business loans. Of the 20 residential real estate

loans we sampled, 100% were originated to borrowers located within the designated assessment area. Of the 20 commercial loans we sampled, 85% by number and 78% by dollar amount were originated to borrowers located within the designated assessment area. These figures indicate that FNBN originated a substantial majority of residential real estate and commercial loans to borrowers located in its assessment area. The following table shows the volume of loans originated inside the assessment area by number and dollar amount:

Lending in Assessment Area by Number and Dollar Amount		
Type of Loan	Percent of Number	Percent of Dollars
Residential Real Estate	100%	100%
Commercial	85%	78%
Total	92%	89%

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

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

FNBN’s distribution of loans to borrowers of different incomes and businesses of different sizes is adequate. Performance in regard to number of loans in its primary product lines of residential real estate and commercial lending is in line with community demographics for loans to low and moderate income borrowers and businesses of different sizes.

FNBN’s distribution of residential real estate loans to borrowers of different income levels reflects satisfactory performance. Based on the sample, FNBN originated 20 percent by number and 6.05 percent by dollar volume of its residential real estate loans to low income borrowers compared to the community demographic of 18.39 percent. Performance by number to moderate income borrowers was satisfactory at 20 percent and strong by dollar volume at 36.35 percent compared to the community demographic of 19.86 percent at this income level. The following table compares the bank’s residential real estate lending activity by borrower income level to community demographics:

Borrower Distribution of Residential Real Estate Loans by Income Level					
Borrower Income Level	Number of Loans	Percent of Loans by Number	Dollar Amount (000s)	Percent by Dollar Amount	Percent of Families in AA
Low	4	20%	\$74,939	6.05%	18.39%
Moderate	4	20%	\$450,479	36.35%	19.86%
Middle	6	30%	\$344,665	27.81%	25.34%
Upper	6	30%	\$369,073	29.78%	36.41%
Total	20	100%	\$1,239,156	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (2000)

The distribution of commercial loans to businesses of different revenue sizes is also satisfactory and meets community demographics. Based on the sample of loans, FNBN originated 95 percent by number and 87 percent by dollar volume of its commercial loans to businesses with annual revenues less than \$1 million. This is compared to 2008 assessment area demographics of 95 percent of reporting businesses having annual revenues of less than \$1 million. The following table compares the bank's commercial lending activity by borrower revenue size to community demographics:

Borrower Distribution of Commercial Loans by Revenue Size					
Annual Gross Revenues	Number of Loans	Percent by Number	Dollar Amount	Percent by Amount	Business Demographic Data
Less than \$100,000	12		\$319,473		
\$100,000 - \$250,000	5		\$873,617		
\$250,000 - \$500,000	1		\$100,030		
\$500,000 - \$1,000,000	1		\$50,000		
Total, Revenues < \$1,000,000	19	95%	\$1,343,120	87%	95%
Total, Revenues > \$1,000,000	1	5%	\$200,000	13%	5%
Total	20	100%	\$1,543,120	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (2000)

Note: Business demographic data is for reporting companies only. In the assessment area, 41% of businesses did not report their revenue.

Responses to Complaints

First National Bank of the North has not received any CRA-related complaints since the last CRA evaluation dated October 8, 2003.

Fair Lending or Other Illegal Credit Practices Review

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