



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 06, 2009**

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

Western National Bank  
Charter Number 13116

201 North Central Avenue  
Duluth, MN 55807

Office of the Comptroller of the Currency

MINNEAPOLIS NORTH  
222 South Ninth Street 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.**

The major factors supporting this rating include:

- A reasonable quarterly average loan-to-deposit ratio of 81%.
- A majority of loan originations/purchases within the assessment area (AA), total of 56%, by number of loans.
- Excellent loan origination volumes to small businesses and individuals with moderate incomes.
- Satisfactory geographic distribution of loan originations throughout the AA.

Please see the remainder of this Public Evaluation for further details and support of this rating and these major factors.

**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, 2006 through December 31, 2008. We focused our assessment upon WNB's primary lending products, business loans, and to a lesser degree residential real estate refinance loans. Our loan samples of these products included a judgmental selection of 35 business loans and 26 residential real estate refinance loans originated throughout the evaluation period. We used applicable information directly from these sampled loan files for our related analyses. As our review of the refinance loans verified the reliability of related Home Mortgage Disclosure Act Loan/Application Register (HMDA-LAR) data, we also used aggregate HMDA-LAR data for refinance loans in our analyses of that primary loan product.

**DESCRIPTION OF INSTITUTION**

WNB is located in Duluth, Minnesota. As of December 31, 2008, WNB had total assets of \$101 million and tier one capital of \$8.7 million. WNB has its main office located in a west Duluth middle-income census tract, a branch located in downtown Duluth in a low-income census tract, and a branch in a Duluth grocery store located in a middle-income census tract. They also have a drive-up facility at the west Duluth location. Products, services, and hours are similar at all locations. WNB also operates six automated teller machines (ATMs), including one that accepts deposits. Two ATMs are located in low-income census tracts.

WNB is owned by Western Bancorporation, Inc., a multi-bank holding company. Affiliates include Premier Credit Corporation and Western National Bank of Cass Lake. Affiliate activities have no impact upon WNB's CRA performance.

WNB is a full-service bank and offers a variety of loan and deposit products and services. The bank’s business strategy concentrates on business lending, residential real estate lending, and to a lesser degree retail lending. WNB’s primary lending products coincide with the bank’s business strategy. As of December 31, 2008, WNB’s loan portfolio was \$73 million. The portfolio consisted of approximately \$39 million in commercial and commercial real estate loans (53% of total loans), \$25 million in residential real estate loans (34%), and \$9 million in other loans (12%) including consumer loans, leases, loans to other institutions, and other obligations. WNB’s net loans and leases represent 73% of its total assets.

WNB has no legal impediments or financial constraints that would limit its ability to meet the credit needs of its assessment area. WNB was rated satisfactory during its last CRA evaluation dated May 12, 2003.

**DESCRIPTION OF ASSESSMENT AREA**

WNB’s assessment area (AA) consists of thirty-eight census tracts located in southeastern St. Louis County, Minnesota (MN) and includes a portion of the Duluth/Superior Metropolitan Statistical Area #20260 (MSA). The AA includes census tracts generally encompassing the cities of Duluth, Hermantown, and Proctor, MN. This AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts. The bank’s AA includes five low-income census tracts, eleven moderate-income census tracts, thirteen middle-income census tracts, and nine upper-income census tracts. Please refer to the bank’s public file for a complete listing of these census tracts. Please see the following table for details on income levels of the AA by census tracts.

<b>Assessment Area Census Tracts by Income Levels</b>		
<b>Assessment Area by Income Level</b>	<b>Number of Census Tracts</b>	<b>Percent of Census Tracts</b>
Low-Income	5	13%
Moderate-Income	11	29%
Middle-Income	13	34%
Upper-Income	9	24%

Source: 2000 U.S. census data.

The population of the AA is approximately 98,000 based on 2000 U.S. Census data. The AA has approximately 23,255 families with 18.3% of families reported as having low-income and 18.4% of families reported as having moderate-income. The AA had 14% of households reporting income below the poverty level. Housing and Urban Development’s MSA updated median family income for the MSA for 2008 was \$58,900. The AA contains a total 41,393 housing units with 64% units owner-occupied. Please see the following table for details on family income demographics of the AA.

<b>Family Income Levels</b>	
Family Income Level	Percent of AA Families
Low-Income (<50% of median family income)	18%
Moderate-Income (50% to <80% of median family income)	18%
Middle-Income (80% to <120% of median family income)	23%
Upper-Income (at least 120% of median family income)	41%

Source: 2000 U.S. census data.

The current local economy is experiencing similar recessionary challenges to those facing the state and national economies. Industries supporting the local economy include those related to medical, tourism, lumber/paper, light manufacturing, and shipping. Significant employers in the area include hospitals, various health services providers, retail stores, lodging services, food services, government entities, and manufacturing businesses. According to the U.S. Bureau of Labor Statistics, unemployment levels in the Duluth/Superior MSA have increased to an unemployment rate of 7.8% as of December 31, 2008.

Competition from other financial institutions in the AA is high. The AA contains a variety of community banks, credit unions, mortgage financing companies, and branches of regional and national banks. According to the June 30, 2008 FDIC Deposit Market Share Report, WNB holds 2% (or \$72 million) of the market share of deposits available in the Duluth/Superior MSA. This data ranked WNB 11<sup>th</sup> for market share of deposits of the 33 financial institutions included in the report.

One community contact was made during this evaluation. This contact is involved in local business activities. Based on input from this contact and existing knowledge of the area, the credit needs of the AA are typical and include small business, home, and retail lending.

## **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 81% over the 23 quarters since the last CRA examination. This ratio ranged from a quarterly low of 71% (fourth quarter 2006) to a quarterly high of 98% (fourth quarter 2008). WNB ranks fifth among a total of five similarly situated banks operating within the AA; however, WNB's LTD ratio is not materially lower than three of these peer banks. Please see the following table for LTD details and rankings.

<b>Institution</b>	<b>Assets (000s) (As of 12/31/08)</b>	<b>Average Loan-to-Deposit Ratio (2Q03 – 4Q08)</b>
Republic Bank	\$287,436	103%
Pioneer National Bank	\$82,968	90%
National Bank of Commerce	\$571,885	90%
North Shore Bank of Commerce	\$197,816	84%
<b>Western National Bank</b>	<b>\$99,499</b>	<b>81%</b>

Source: Call Report Data

### **Lending in Assessment Area**

WNB originates a majority of its loans to borrowers located within its AA. This level of lending within the AA represents satisfactory performance. Our assessment of the bank's primary products, business loans and residential real estate refinance loans originated throughout the evaluation period identified that 56%, by number, were originated within the AA. Please see the following table for further details.

<b>Assessment Area Census Tracts by Income Levels</b>				
Type of Loan	Number	Percent of Number	Dollar of Loans (000s)	Percent of Dollars
Business	20 of 35	57%	\$4,804 of \$13,751	35%
Residential Real Estate Refinancing	75 of 134	56%	\$9,349 of \$18,334	51%
Total	95 of 169	56%	\$14,153 of \$32,085	44%

Source: OCC business loan sample of 35 originations and purchases and 2006-2008 HMDA-LAR reports.

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

The distribution of loans to businesses of different sizes and individuals of different income levels is excellent. In particular, loan originations to businesses with revenues of less than one million dollars exceeded the demographics of the AA, as did residential real estate refinance lending to borrowers with moderate incomes.

#### Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. By number, our sample found that 80 percent of the bank's loans to businesses originated and purchased during the evaluation period and within the AA were made to businesses with gross annual revenues of one million dollars or less. This exceeds demographic data which shows 60% of the area's businesses report revenues of less than one million dollars and demonstrates excellent performance. Please see the following table which highlights the distribution of business loans among different sized businesses in the AA.

<b>Borrower Distribution of Loans to Businesses</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	60	6	34	100%
% of Bank Loans in AA by #	80	20	0	100%
% of Bank Loans in AA by \$	53	47	0	100%

Source: OCC business loan sample of 20 originations and purchases within the AA from 2006-2008.

**Residential Real Estate Refinance Loans**

The distribution of residential real estate refinance loans to borrowers reflects excellent overall penetration among borrowers of different income levels. At 26% by number of loans originated, WNB’s lending to moderate-income borrowers substantially exceeds the community demographic of 18%. This level demonstrates excellent performance. WNB’s level of lending to low-income borrowers is reasonable. At 7% by number of loans originated, WNB’s level of lending to low-income borrowers is below the demographic of 18%; however, the AA’s high poverty rate of 14% makes it difficult for a bank to meet both this demographic and prudent underwriting standards. Please see the following table that compares the bank’s residential real estate refinance lending activity by borrower income level to community demographics.

<b>Borrower Distribution of Residential Real Estate Refinance Loans</b>								
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
Home Refinance	18	7	18	26	23	19	41	47

Source: HMDA data for 2006-2008 and 2000 U.S. Census data.

**Geographic Distribution of Loans**

The bank’s geographic distribution of loans reflects a reasonable dispersion throughout census tracts of different income levels with no gaps of concern. This represents a satisfactory level of performance. More weight was given to the bank’s business loan distribution as business loans are the bank’s predominate primary product.

**Business Loans**

The bank’s geographic distribution of business loans reflects an excellent dispersion throughout census tracts of different income levels, including low- and moderate-income tracts. By number of loans originated within the AA, business loan distribution exceeds the demographic for low-income census tracts and is very near the demographic for moderate-income census tracts. Please see the following table for highlights of the bank’s performance as compared to the percentage of businesses in each census tract income category.

<b>Geographic Distribution of Loans to Businesses</b>								
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
Business	27	30	16	15	32	45	24	10

Source: OCC business loan sample of 20 originations and purchases within the AA from 2006-2008.

**Residential Real Estate Refinance Loans**

The bank’s geographic distribution of residential real estate refinance loans reflects low dispersion throughout census tracts of different income levels. The bank did not originate any refinance loans in low-income census tracts and originations in moderate-income tracts were below the demographics for the evaluation period. The low volume of owner-occupied housing units in the low-income census tracts, only 617 in total, makes it challenging for a bank to meet these demographics. Please see the following table for details of the bank’s performance compared to the percentage of owner-occupied housing units in each census tract income category.

<b>Geographic Distribution of Residential Real Estate Loans</b>								
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 Refinance	2	0	14	5	45	55	38	40

Source: HMDA data for 2006-2008 and 2000 U.S. Census data

**Responses to Complaints**

WNB has received no CRA complaints during this evaluation period.

**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.