



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 15, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Proctor
Charter Number 11125**

**211 Second Street
Proctor, MN 55810**

**Comptroller of the Currency
Minneapolis North
920 Second Avenue South, Suite 800
Minneapolis, 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: Satisfactory

- The First National Bank of Proctor (FNB) has reasonable lending penetration to low- and moderate-income borrowers.
- The distribution of loans throughout the assessment area is reasonable.
- FNB originates a majority of loans within its assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Proctor (FNB) is a \$21 million institution located in northeastern Minnesota. FNB has one office in Proctor, Minnesota (population 3,000) which is located adjacent to Duluth, Minnesota (population 87,000). FNB does not operate any automated teller machines. FNB's primary lending products include residential real estate and consumer loans. As of December 31, 2006, the \$13 million loan portfolio was composed of \$7.8 million in residential real estate loans (60% of total loans), \$2.7 million in commercial loans (21%), \$1.6 million in consumer loans (12%), \$913 thousand in other loans (7%). Though commercial loans compose the second largest percentage of total loans by dollar volume, the number of consumer loan originations since the last CRA evaluation represented 55% of all originations. Therefore consumer lending is more indicative of the bank's lending strategy and a primary product. Net loans and leases compose 59% of FNB's \$21 million in total assets.

There are no legal or financial constraints on FNB that would inhibit its CRA performance. FNB's last CRA evaluation dated July 29, 2002 rated its performance as "satisfactory".

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) consists of 45 census tracts (CT) covering approximately the southern half of St. Louis County. The AA has not changed since FNB's July 29, 2002 CRA evaluation. The AA meets the requirements of the regulation. The 2006 updated median family income for the AA is \$55,700 from the Department of Housing and Urban Development. The median family income per the 2000 census was \$46,619. St. Louis County is included in the Duluth, MN-WI Metropolitan Area #20260. The income designation of the 45 CTs is as follows:

Income Distribution of Geographies and Families							
<small>(Definition of family income levels can be found in 12 CFR 25.)</small>							
Number of Census Tracts				Percentage of Families			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
11%	24%	40%	24%	17%	18%	23%	42%

Source: U.S. Census Data (2000)

The AA population is approximately 124,000 based on 2000 census data. The bank's main office is located in the City of Proctor, which lies primarily within a middle-income CT. Approximately 66% of all housing units are owner occupied. The January 2007 unemployment rate for St. Louis County was 6.6%, which is higher than the state of Minnesota average of 5.4%.

We contacted a Duluth real estate agent as part of this CRA evaluation. The real estate agent described the housing market in Duluth and the surrounding smaller towns as abundant with a good supply and demand for affordable housing. They noted very good involvement by local financial institutions in meeting financing needs of the community. Another recent community contact noted an increase in affordable housing developments and expressed good involvement by local institutions to provide financing with assistance from local and state housing programs. Major employers within the AA are in the healthcare, education, and government sectors. Major industries include health care, aviation, technology, and tourism.

There are numerous other financial institutions in FNB's AA. Local competition includes 12 banks, 13 credit unions, and over 10 mortgage companies with offices in the AA. The Proctor Federal Credit Union is FNB's most direct competitor as it is located within the City of Proctor. Other financial institutions, many of which are located in the City of Duluth, provide strong competition.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable. The bank's average loan-to-deposit ratio over the 18 quarters ending December 2006 is 58.2%. This ratio is the second lowest average loan-to-deposit ratio among the six financial institutions with main offices in or near FNB's AA, each with total assets less than \$50 million. The average loan-to-deposit of the five similarly situated institutions for the same 18 quarters is 67.28%. FNB's quarterly loan-to-deposit ratio has increased during the assessment period. It rose from 53.2% as of September 2002 to 65.6% as of December 2006. FNB's lower loan-to-deposit ratio is in part a function of its lower legal lending limit reducing the number of commercial and commercial real estate lending opportunities which are generally comprised of larger dollar loans.

Lending in Assessment Area

FNB originates a majority of its loans within its assessment area. We analyzed samples of residential real estate and consumer loans to assess the level of lending within the AA. FNB originated 95% of the total number of residential real estate loans and 85% of the dollar volume of residential real estate loans in our sample within its AA. From the sample of consumer-purpose loans, FNB originated 85% of the total number, and 83% of the dollar volume, of those loans within the bank's assessment area.

Lending to Borrowers of Different Incomes

FNB's distribution of loans to borrowers of different income levels is reasonable. FNB demonstrated strong penetration in consumer lending to low- and moderate-income borrowers. Residential lending to low- and moderate-income borrowers is reasonable.

FNB originated 162 residential real estate loans totaling \$9.7 million from September 30, 2002 to December 31, 2006. The average residential loan size is \$60,037. The chart below represents

data from a random sample of 20 loans secured by residential real estate including home equity, refinance, and purchase loans. Income data on families and households was compiled from census data and the Department of Housing and Urban Development.

Borrower Distribution of Residential Real Estate Loans in AA								
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 Loans	17%	10%	18%	15%	23%	25%	42%	50%

Source: Bank records (verified by examiners); U.S. Census data (2000)

FNB originated 271 consumer loans totaling \$2.5 million from September 30, 2002 to December 31, 2006. The average consumer loan size is \$9,236. The following table represents data from a random sample of 20 consumer-purpose loans:

Borrower Distribution of Consumer Loans in AA								
Borrower 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	23%	40%	15%	20%	18%	25%	22%	15%

Source: Bank records (verified by examiners); U.S. Census data (2000)

Geographic Distributions of Loans

The geographic distribution of loans throughout the AA is reasonable considering the location of competing financial institutions, distance of individual CTs from FNB's single office, and the demographic and geographic characteristics of the AA. FNB's small size in terms of assets and staff and the numerous competitors within the AA limit the bank's ability to penetrate geographies outside the CT surrounding its single office. FNB's loan originations are concentrated in the CT containing FNB's main office, which is a middle-income tract.

The sample of consumer-purpose loans indicates a heavy concentration in middle-income census tracts with no penetration in low-income census tracts and reasonable penetration in moderate census tracts. The bank's penetration in moderate-income census tracts represents improved penetration since the bank's previous CRA evaluation. In addition to sampling consumer loans, we reviewed the bank's new loan reports for the years 2005 through year-to-date 2007 that revealed additional consumer-lending activity in several different low- and moderate-income

CTs. The geographic distribution of sampled consumer loans was as follows:

Geographic Distribution of Consumer Loans in FNB Proctor MN 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 Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	9%	0%	16%	10%	45%	80%	30%	10%

Source: Bank records (verified by examiners); U.S. Census data (2000)

The real estate loan sample reflected no penetration within low or moderate-income geographies. The majority of loans in the sample were in a middle-income geography, which is reasonable considering the location of the bank, in a middle-income geography, and competition. The geographic distribution of sampled real estate loans was as follows:

Geographic Distribution of Residential Real Estate Loans in FNB Proctor MN 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
Residential Loans	2%	0%	11%	0%	52%	85%	36%	15%

Source: Bank records (verified by examiners); U.S. Census data (2000)

Responses to Complaints

FNB has not received any CRA related complaints since its last CRA evaluation dated July 29, 2002.

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.