



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 17, 2008**

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

The First National Bank of Coleraine  
Charter Number 8322

W Highway 169  
Coleraine, MN 55722

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.**

- First National Bank of Coleraine (FNB) originates a substantial majority of its loans within its assessment area.
- Lending to residential real estate borrowers of different income levels is more than reasonable and lending to businesses of different sizes is reasonable.
- The bank's average loan-to-deposit ratio is reasonable.
- The geographic distribution of loans throughout the assessment area is reasonable.

**DESCRIPTION OF INSTITUTION**

First National Bank of Coleraine is a \$62 million institution with two offices located in northern Minnesota. The main office is located in Coleraine, Minnesota and the branch operates in nearby La Prairie, Minnesota. Both locations have drive-up windows, night depositories, and automated teller machines (ATM). FNB's offices offer traditional banking products and services and maintain standard banking hours. FNB's main office and branch are located in, and surrounded by, middle-income geographies.

FNB is wholly-owned by Jan-Mar Holding Company, a \$62 million one-bank holding company headquartered in Coleraine, Minnesota. FNB's corporate structure has not changed since its last CRA evaluation.

FNB's primary lending products consist of residential real estate, business, and consumer loans. Based on the bank's March 31, 2008 Report of Condition and Income, the bank's loan portfolio consisted of the following outstanding loan types by dollar volume: residential real estate (51%), commercial and commercial real estate (41%), and consumer (8%). Net loans represent 50% of total assets. Based on the dollar volume of loan originations, residential real estate and business loans were determined to be primary products since the last CRA evaluation.

FNB received a satisfactory rating at its January 27, 2003 CRA evaluation. There are no legal or financial constraints on FNB that would inhibit its CRA performance.

**DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area (AA) includes all ten census tracts located in Itasca County, Minnesota. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. See tables below for census tract and family income details.

Income Distribution of Geographies and Families							
Number of Census Tracts				Percentage of Families in Census Tracts			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
0 (0%)	2 (20%)	8 (80%)	0%	0%	12%	88%	0%

Percentage of Families by Income Level	
Family Income Level	Percent of Families
Low-Income	20%
Moderate-Income	20%
Middle-Income	24%
Upper-Income	36%

According to 2000 U.S. Census data, the median housing value for the State of Minnesota is \$118,100. The same data indicates the median housing value of the AA is \$79,105 and the median age of a home is 33 years. Owner-occupied units comprise 60% of all housing units in the AA. Rental units have an average gross rent of \$402 per month.

The population of the AA is 43,992 and there are 12,449 families located within the AA according to 2000 U.S. Census Data. The U.S. Department of Housing and Urban Development’s 2008 updated statewide non-metropolitan statistical area median family income estimate for Minnesota is \$56,700. The 2000 U.S. Census data indicates that 10.6% of households and 7.7% of families in the AA are below the poverty level.

Major industries in the area include tourism, services, government, retail trade, and manufacturing. Major employers include Blandin Paper Company, Independent School District #318, and Itasca Medical Center. Itasca County’s 2007 unemployment rate of 7.3% is higher than the Minnesota state rate of 4.6%.

Competition from other financial institutions in the area is strong. There are nine financial institutions operating in Itasca County. Based upon asset size, FNB ranks eight out of nine institutions. Based on deposit share, FNB ranks fourth with approximately 8% of all deposits.

We did not identify any unmet credit needs in FNB’s AA through our contact with a local business organization. Our contact stated that financing for small businesses are the most immediate credit need in the area. Our contact indicated that area banks have demonstrated a willingness to provide residential and business financing. Based on the contacts observations, there are no negative perceptions of any financial institution within the AA.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs. From December 31, 2002 to March 31, 2008, the bank's quarterly LTD ratio ranged from 54% to 66% and averaged 58%. This ratio is lower than past performance and ranks last among similarly situated banks. Similarly situated banks include banks headquartered in Itasca County and have total assets less than \$100 million. FNB sells residential real estate loans on the secondary market; the volume of loans originated and subsequently sold is not reflected in the quarterly LTD ratio.

Institution	Assets (000s) (As of 3/31/08)	Average Loan-to-Deposit Ratio (4Q02 – 1Q08)
<b>First National Bank of Coleraine</b>	<b>\$62,300</b>	<b>58%</b>
Woodland Bank	\$99,583	89%
First State Bank of Bigfork	\$43,387	96%

### Lending in Assessment Area

FNB of Coleraine originates a substantial majority of its loans to borrowers located within its defined assessment area. Based on a sample of 20 residential real estate and 20 business loans originated between January 1, 2006 and April 30, 2008, the bank originated 98 percent by number and 98 percent by dollar amount of its loans within its assessment area. The following table shows loans originated inside the assessment area by number and dollar amount:

Lending in Assessment Area by Number and Dollar Amount				
Type of Loan	Number	Percent of Number	Dollar of Loans (000s)	Percent of Dollars
Residential Real Estate	19	95%	\$955	96%
Business	20	100%	\$1,338	100%
<b>Total</b>	<b>39</b>	<b>98%</b>	<b>\$2,293</b>	<b>98%</b>

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

FNB's residential real estate lending to borrowers of all income levels in the AA is reasonable. By number, loan originations to low- or moderate-income borrowers exceed demographics of the AA. The following table compares the actual percentage of families based on income level located within the assessment area to loans made by the bank from the selected loan sample of 20 residential real estate loans that originated between January 1, 2006 and April 30, 2008.

<b>Borrowing Distribution of Residential Real Estate Loans by Income Level</b>			
Borrower Income Level	Number	Percent of Number	Percent of Families in Assessment Area
Low	3	15%	20%
Moderate	6	30%	20%
Middle	2	10%	24%
High	9	45%	36%
<b>Total</b>	<b>20</b>	<b>100%</b>	<b>100%</b>

FNB's record of lending to businesses of different sizes is reasonable. Contextual research and community contact information indicate that 90% to 95% of businesses in the AA have revenues of less than \$1 million. Based on a sample of 20 business loans originated in the AA between January 1, 2006 and April 30, 2008, the bank originated 75% of its loans to businesses with revenues less than \$1 million. The business revenue of sampled loans ranged from \$29,000 to \$28 million.

<b>Borrower Distribution of Business Loans by Income Level</b>			
Borrower Income Level	Number	Percent of Number	Percent of Businesses in Assessment Area*
Less than or equal to \$1MM	15	75%	61%
Above \$1MM	5	25%	3%
Revenue Not Reported	0	0%	36%

\*Per 2008 Business Geodemographic Data

### **Geographic Distribution of Loans**

The geographic distribution of loans to individuals of different income levels is reasonable. To assess the bank's performance in this area, a sample of 20 residential real estate and 20 business loans originated in the AA since January 1, 2006 was selected. FNB's AA does not have any low-income census tracts. Residential real estate lending in moderate-income tracts was 0% by number compared to the demographic of 12% of owner-occupied homes located in moderate-income tracts. Business lending in moderate-income tracts was 5% by number compared to a demographic of 11% of businesses located in moderate-income tracts.

The conspicuous gaps in geographic distribution are primarily caused by the bank and its branch's location in middle-income tracts, while competition in the AA is located in or close to moderate-income tracts. The majority of the bank's loans were originated in or adjacent to the census tracts where the bank and its branch are located. In addition, the AA's moderate-income tracts are home to branches of several financial institutions resulting in a competitive advantage.

Geographic Distribution of Residential Real Estate Loans by Income Level					
Census Tract Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	0	0%	\$0	0%	12%
Middle	20	100%	\$1,015	100%	88%
Upper	0	0%	\$0	0%	0%
<b>Total</b>	<b>20</b>	<b>100%</b>	<b>\$1,015</b>	<b>100%</b>	<b>100%</b>

Geographic Distribution of Business Loans by Income Level					
Census Tract Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Businesses by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	1	5%	\$10	1%	11%
Middle	19	95%	\$1,328	99%	89%
Upper	0	0%	\$0	0%	0%
<b>Total</b>	<b>20</b>	<b>100%</b>	<b>\$1,338</b>	<b>100%</b>	<b>100%</b>

**Response to Complaints**

FNB of Coleraine has not received any CRA-related complaints since the last CRA evaluation dated January 27, 2003.

**Fair Lending Review**

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