



Public Disclosure

May 26, 1998

Community Reinvestment Act Performance Evaluation

**The First National Bank of Coleraine
Charter Number 8322**

**West Highway 169
Coleraine, Minnesota 55722**

**Office of the Comptroller of the Currency
Minneapolis North Field Office
920 Second Avenue South, Suite 800
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Note: 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.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of The First National Bank of Coleraine prepared by The Office of the Comptroller of the Currency as of May 26, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated satisfactory.

The First National Bank of Coleraine's (FNB) penetration of lending throughout its assessment area (AA) is good. The bank is a major originator of consumer loans including residential real estate, automobile, and various other consumer secured loans in its assessment area. FNB's distribution of lending to borrowers based on their income is reasonable. FNB's average quarterly loan-to-deposit ratio is also reasonable at 70%.

Description of Institution:

FNB is a \$40 million institution located in Coleraine, Minnesota with a branch office in LaPrairie, Minnesota. The bank is owned by a closely held one-bank holding company. FNB's main office and branch are located in middle-income geographies. As of the June 30, 1997 Report of Condition, FNB reported an estimated deposit distribution of 60% and 40% between the Coleraine and LaPrairie offices, respectively. The bank operates a cash dispensing machine at each location. The bank has not opened or closed any offices since the last CRA examination dated March 3, 1994. The bank was rated "satisfactory" as of the last CRA examination.

An internally generated report shows the bank's loan portfolio consists mainly of consumer loans. These include residential real estate, automobile, mobile home, other instalment, and single-pay personal loans. These consumer loans represent 90% by number and 84% by dollar of the bank's \$24,148,770 loan portfolio. The remainder of the loan portfolio consists of commercial real estate and operating loans representing 16% by dollar and 3% by number and student loans representing less than 1% by dollar and 7% by number. There are no legal or financial impediments which hinder the bank's ability to fulfill its CRA obligations.

Description of Assessment Area (AA):

FNB's AA includes six adjacent, middle-income block numbering areas (BNA) in Itasca County. All of the BNA's are in close proximity to the bank's main office and branch. The bank's AA does not arbitrarily exclude low- or moderate-income geographies. According to the 1990 Census, the population of FNB's AA is 29,265. Of the families residing in the AA, 20% are categorized as low-income, 18% as moderate-income, 21% as middle-income, and 41% as upper-income. Eleven percent of all families in the AA earn an income below the poverty level. The nonmetropolitan statewide median family income for 1997 was \$38,400 increasing to \$40,500 in 1998. As of the 1990 census, 16% of the AA's population was over age 65 as compared to the state average of 12.5%.

FNB competes with two locally owned banks and two regional banks located in Grand Rapids and one bank located in nearby Bovey. The bank ranks third in asset size of the four locally owned banks in its AA.

Of the area's top twelve employers, three employers account for 80% of the jobs in the area. The largest employers include Blandin Paper Company (38%), city and county government (29%), and Itasca Medical Center (13%). These numbers are consistent with the overall employment in the area. Of the total persons employed, 82% are employed in nonmanufacturing jobs. Tourism is a major industry in the area.

Conclusions with Respect to Performance Criteria:

Distribution of Credit Within the Assessment Area by Borrower Income and by Business Revenues

FNB's distribution of credit to borrowers for loans secured by residential real estate is reasonable. Loans by number to moderate-income borrowers is comparable to AA demographics. The bank's lending to upper-income borrowers exceeds income demographics. Within the AA, 11% of all families report income below the poverty level which is reflected in the bank's lower loan volume to low-income borrowers and lending levels below the demographics. Examiners randomly reviewed 10% of the one- to two-family residential real estate loans originated between March 17, 1994 and April 27, 1998. Of the loans included in the sample, 11% were originated by the LaPrairie office with 89% by the Coleraine office.

In addition to the loans which the bank keeps in its portfolio, FNB sells residential real estate loans on the secondary market. In 1996 and 1997, the bank sold 9 loans totaling \$672,000 and 11 loans totaling \$958,000, respectively. Examiners did not analyze the distribution of these loans by borrower income.

Distribution of Loans Secured by Residential Real Estate by Borrower Income					
Income Level of Borrower	# of Loans and %		\$ of Loans and %		% of Families in AA
Low-income	3	11%	87,100	6%	20%
Moderate-income	5	18%	223,011	14%	18%
Middle-income	4	14%	151,000	10%	21%
Upper-income	16	57%	1,078,840	70%	41%

Lending to borrowers for loans secured by automobiles more closely reflects the demographics of the AA. The bank's distribution by number of loans exceeds demographics in the moderate- and middle-income levels. Loans by dollar also exceed demographics in the middle-income level. Examiners selected a 9% sample of automobile loans originated between March 17, 1994 and April 27, 1998. The sample consisted of an equal number of loans from each office.

Distribution of Loans Secured by Automobiles by Borrower Income					
Income Level of Borrower	# of Loans and %		\$ of Loans and %		% of Families in AA
Low-income	3	12%	39,096	11%	20%
Moderate-income	6	23%	52,908	15%	18%
Middle-income	7	27%	97,727	28%	21%
Upper-income	9	35%	142,308	41%	41%
Income unknown	1	4%	12,351	4%	NA

Lending to borrowers for consumer instalment loans exceeds the demographics in the number of loans made to low- and moderate-income borrowers, and the number is comparable to middle-income borrowers. By dollar, the distribution of originated loans is comparable to demographics for low-, moderate-, and middle-income borrowers. Examiners selected a 9% sample with 27% of the files from the branch and 73% of the files from the main office.

Distribution of Consumer Instalment Loans by Borrower Income					
Loans Originated Between March 17, 1994 and April 27, 1998					
Income Level of Borrower	# of Loans and %		\$ of Loans and %		% of Families in AA
Low-income	11	32%	87,100	20%	20%
Moderate-income	9	26%	223,011	20%	18%
Middle-income	7	21%	151,000	20%	21%
Upper-income	7	21%	1,078,840	40%	41%

The bank's commercial loan portfolio is not considered a significant portion of the bank's lending activity and was not considered during the review. Total commercial loans including commercial real estate, real estate construction, multifamily housing loans, and commercial operating loans total only 15% by dollar and 3% by number of the bank's loan portfolio.

Distribution of Credit Within the Assessment Area by Geography

Distribution of credit was not considered to be relevant in assessing the bank's performance in meeting the credit needs of its AA. All geographies are categorized as middle-income.

Loan-to-Deposit Ratio Analysis

FNB's average quarterly loan-to-deposit (LTD) ratio is reasonable at 70%. FNB's LTD ratio ranks second when compared to the average quarterly ratios of three other banks chartered in Itasca County. The LTD ratios of these banks range from 62% to 81% with an average of 69% over the same period. FNB's LTD ratio has remained relatively constant during this period as have the LTD ratios of the other three banks. The average quarterly LTD ratio was calculated using the eight quarters beginning March 31, 1996 and ending December 31, 1997. The bank also sells residential real estate loans on the secondary market. The volume of loans originated but subsequently sold is not reflected in the bank's LTD ratio.

Lending within the Assessment Area

FNB's lending within its AA is good. FNB originated a majority, or 75% by dollar and 80% by number, of all loans secured by residential real estate within its AA. This conclusion is based on management's report of loans originated in between March 1994 and May 1998 which were on the bank's balance sheet as of May 22, 1998. National bank examiners verified the accuracy of 35 of the 350 loans or 10% listed in this report.

The number and dollar amount of automobile loans originated inside the bank's AA was 92%. Instalment loans reflected similar performance with 88% by dollar and 77% by number originated in the bank's AA.

Response to Complaints

Neither the bank nor the Comptroller of the Currency has received any complaints regarding the bank's CRA performance since the prior CRA examination.

Record of Compliance with Antidiscrimination Laws

During the bank's concurrent fair lending examination, no violations of the substantive provisions of the antidiscrimination laws and regulations were identified.