



## **PUBLIC DISCLOSURE**

May 10, 1999

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

**The First National Bank of the North  
Charter Number 16871**

**510 Main  
Sandstone, Minnesota 55072**

**Comptroller of the Currency  
302 West Superior Street, Suite 307  
Duluth, Minnesota 55802**

**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 Community Reinvestment Act (CRA) performance of **The First National Bank of the North**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 10, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated “**Satisfactory**”.

The First National Bank of the North (FNB) is assigned this rating for the following reasons:

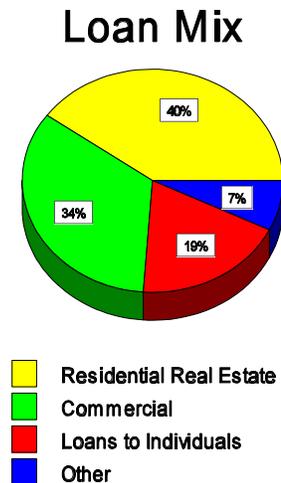
- T FNB has originated loans throughout its assessment area, with very high penetration in moderate-income areas;
- T FNB has originated loans in its assessment area to individuals of all income levels, particularly those designated as moderate-income;
- T FNB has originated loans to small businesses consistent with the business demographics of the assessment area;
- T FNB has a reasonable loan-to-deposit ratio which is slightly above other banks in the area; and
- T FNB has originated and/or purchased a majority of its loans from within its assessment area.

## DESCRIPTION OF INSTITUTION

FNB is a \$53 million dollar bank headquartered in Sandstone, Minnesota. FNB has two branches in nearby Askov and Kerrick, one automated teller machine in Sandstone, and a newly opened loan production office in Hinckley, Minnesota. The Askov branch offers full banking services. The Kerrick branch offers most services with a lender onsite certain times of the week or by appointment. The Bank is owned by JDOB, Inc., a three-bank holding company. In addition to its holding company, the bank has two bank affiliates in Belle Plaine and Lino Lakes, Minnesota.

There are no legal or financial constraints on the bank that inhibit its CRA performance. FNB was rated “outstanding”, under a previous rating system, during its last CRA evaluation dated August 14, 1995.

FNB’s primary lending products are residential real estate<sup>1</sup>, commercial, and loans to individuals. The chart to the right reveals the distribution of the bank’s \$32.4 million loan portfolio as of March 31, 1999. This loan volume represents 67% of the bank’s total assets.



## DESCRIPTION OF THE ASSESSMENT AREA

FNB’s assessment area (AA) includes seven block numbering areas (BNAs) surrounding its banking facilities. This area includes the northern five BNAs of Pine County, the southeastern BNA of Aitkin County, and the northeastern BNA of Kanebec county. The 1998 median family income level for this non-metropolitan statistical area is \$40,500. The AA includes two (29%) moderate-income BNAs and the remaining five (71%) are designated as middle-income areas. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income BNAs.

The population of the assessment area is approximately 18,000. A high percentage of this population (19% of households) reports incomes below the poverty level. The local economy is characterized as rural and nonfarm. Major employers in the area include the Grand Casino Hinckley, the Sandstone Federal Correction Facility, and local school districts. Financial service provider competition is high in the AA with several other community banks, credit unions, finance and mortgage companies providing credit services.

Examiners spoke with a government official during the examination to obtain information on the special credit needs and characteristics of the area. Combining the information obtained through this contact with that obtained from bank staff and existing examiner knowledge of the area, identified local credit needs

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<sup>1</sup> The bank groups all loans secured by residential real estate, regardless of purpose, in this category.

including: 1) home loans; 2) home improvement/rehabilitation loans; 3) various purpose consumer loans; and 4) small business loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### *Lending to Borrowers of Different Income Levels and Businesses of Different Sizes*

The bank's distribution of loans to borrowers of different incomes and businesses of different sizes is good. The bank is making loans predominately to individuals with low- and moderate-incomes, as well as, to small businesses.

To analyze the bank's lending levels to borrowers and businesses, examiners randomly selected originations from within the AA for each of the bank's three primary credit types. These loans were originated since FNB's last CRA evaluation in August 1995 through April 1999. Examiners relied upon internal bank reports<sup>2</sup> to select a total of 60 originations, 20 from each primary credit type.

FNB is originating loans to individuals with low- and moderate-incomes at amounts exceeding the demographics of the AA. FNB has originated 31% by dollar and 35% by number of such loans to low-income individuals. In comparison, demographics of the AA detail that 26% of the AA families have incomes designated as low. FNB's lending to moderate-income individuals also exceeds the demographics of the AA. By dollar of loans originated, 29% of such loans are to moderate-income individuals with 25% by number. In comparison, demographics of the AA detail that 22% of the families have incomes designated as moderate. The table below highlights FNB's lending levels to individuals by income levels:

<b>Lending to Individuals by Income Levels</b>			
	<b>% of Loans by \$</b>	<b>% of Loans by #</b>	<b>% of AA Families within each Income Category</b>
<b>Low-Income</b>	31%	40%	26%
<b>Moderate-Income</b>	29%	25%	22%
<b>Middle-Income</b>	23%	25%	24%
<b>Upper-Income</b>	17%	10%	28%

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<sup>2</sup> To select a sample and perform the subsequent geographic analyses, examiners relied upon a bank report which detailed all loan originations and purchases since FNB's last CRA evaluation. Before relying upon this report, examiners validated its accuracy by cross referencing data elements from 20 loan files to the report.

For residential real estate loans within the AA, FNB is also originating loans to moderate-income borrowers in percentages exceeding the demographics. By dollar of loans originated, FNB has made 34% of such loans to moderate-income borrowers with 35% by number of loans. Lending levels for this loan category to low-income borrowers, however, have not meet the AA demographics. By dollar, FNB has originated 10% of such loans to low-income borrowers with 15% by number. The table below highlights FNB’s lending levels to real estate borrowers by income levels:

<b>Residential Real Estate Lending by Borrower Income Levels</b>			
	<b>% of Loans by \$</b>	<b>% of Loans by #</b>	<b>% of AA Families within each Income Category</b>
<b>Low-Income</b>	10%	15%	<b>26%</b>
<b>Moderate-Income</b>	34%	35%	<b>22%</b>
<b>Middle-Income</b>	26%	25%	<b>24%</b>
<b>Upper-Income</b>	30%	25%	<b>28%</b>

FNB’s lending to businesses within the AA is consistent with the business demographics of the area. FNB originated 90% by number and 71% by dollar of its business loans to businesses with revenues of less than \$500,000. Many of these loans are to very small businesses, with revenues less than \$250,000. In comparison, 82% of the businesses in the AA report revenues less than \$500,000. The table below highlights FNB’s lending to businesses by revenue levels:

<b>Lending by Business Revenue Levels</b>			
<b>Revenues (000’s)</b>	<b>% of Loans by \$</b>	<b>% of Loans by #</b>	<b>Demographics</b>
<b>\$0 to \$250</b>	65%	85%	82% *
<b>\$250+ to \$500</b>	6%	5%	
<b>\$500+ to \$1,000</b>	19%	5%	7%
<b>\$1,000+</b>	10%	5%	9%

\* The demographics noted above are compiled by Dunn and Bradstreet for businesses and farms (although there are few farms) electing to report revenue data.

## ***Geographic Distribution of Loans***

The bank's geographic distribution of loans within the AA is strong and reflects lending in all BNAs. Of all loan originations/purchases since the last CRA evaluation, one-third are to borrowers in moderate-income BNAs. As detailed below by primary product type, this is a strong penetration level in relation to the AA's demographics.

As highlighted in the table below, FNB is originating 37% of its residential real estate loans in moderate-income BNAs. In comparison, only 25% of the owner-occupied housing stock is located within these BNAs.

<b>Geographic Distribution of Residential Real Estate Loans within the AA</b>			
	% of Loans by \$	% of Loans by #	% of AA Owner-Occupied Housing Stock
Low-Income Tracts	0%	0%	<b>0%</b>
Moderate-Income Tracts	37%	37%	<b>25%</b>
Middle-Income Tracts	63%	63%	<b>75%</b>
Upper-Income Tracts	0%	0%	<b>0%</b>

As highlighted in the table below, FNB is originating 35% by dollar and 39% by number of its loans to individuals in moderate-income BNAs. In comparison, only 23% of the AA's population reside in these BNAs.

<b>Geographic Distribution of Loans to Individuals within the AA</b>			
	% of Loans by \$	% of Loans by #	% of AA Population
Low-Income Tracts	0%	0%	<b>0%</b>
Moderate-Income Tracts	35%	39%	<b>23%</b>
Middle-Income Tracts	65%	61%	<b>77%</b>
Upper-Income Tracts	0%	0%	<b>0%</b>

As highlighted in the table on the following page, FNB is originating 28% by dollar and 53% by number of its business loans within the AA in moderate-income BNAs. In comparison, 30% of the AA's businesses are located within these BNAs.

<b>Geographic Distribution of Commercial Loans within the AA</b>			
	<b>% of Loans by \$</b>	<b>% of Loans by #</b>	<b>% of AA Businesses</b>
Low-Income Tracts	0%	0%	0%
Moderate-Income Tracts	28%	53%	30%
Middle-Income Tracts	62%	47%	70%
Upper-Income Tracts	0%	0%	0%

### ***Loan-to-Deposit Ratio***

FNB's loan-to-deposit ratio is reasonable and slightly above other area banks of similar size. Since its last CRA evaluation, the bank's average quarterly loan-to-deposit ratio is 79% versus a local peer group average of 74%. The peer group consisted of ten banks in Pine, Aitkin, and Kanebec Counties with assets ranging from \$28 million to \$127 million.

### ***Lending Inside the Assessment Area***

The majority of the bank's loan originations are within the AA. Using the bank reports described earlier (see footnote 1), examiners determined that FNB has originated or purchased 66% of its loans within the AA by dollar, 89% by number, since its last CRA evaluation. Conclusions regarding each of the bank's three major product lines are detailed below.

Residential Real Estate: FNB originated 96% by dollar and 98% by number within the AA.

Loans to Individuals: FNB originated 87% by dollar and 89% by number within the AA.

Commercial: While still reasonable, commercial loan levels are not as strong as those above. By dollar, of all the commercial loan originations/purchases, 44% came from within the AA. This percentage is affected by the bank's practice of purchasing out-of-area commercial loans. These purchased loans are typically larger than local originations. Many of these loans have also been subsequently sold to affiliates and were not intended to be held long term by the bank.

### ***Response to CRA Related Complaints***

FNB has not received any CRA-related complaints since the last evaluation.



### ***Compliance with Antidiscrimination Laws***

No violations of the substantive provisions of antidiscrimination laws and regulations were identified. To make this determination, examiners performed a comparative file review of five denied, unsecured instalment loan applications from individual females and 20 approved, unsecured instalment loans to individual males. Gender was assumed by first name comparisons and discussions with bank staff.