



PUBLIC DISCLOSURE

May 10, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Crosby
Charter Number 9838
15 East Main Street**

**Office of the Comptroller of the Currency
Duluth Field Office
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 Crosby** 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 Crosby extends a majority of its loans within the bank's defined assessment area. The bank satisfactorily distributes credit to borrowers of different income levels and to businesses of various sizes as well as throughout the geographies of its assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Crosby (FNB) is a \$36 million dollar institution headquartered in Crosby, Minnesota. The bank has a branch office located in Emily, Minnesota (18 miles north of Crosby) and a recently approved branch in Outing, Minnesota (8 miles north of Emily). The branch locations primarily provide deposit services and staff no full-time loan officers. Applications are accepted at the branches and forwarded to the main office. Loan officers will provide services at the branch locations as needed to assist customers. Drive-up facilities are available at the Crosby and Emily offices and a proprietary ATM is maintained at a grocery store located in Crosby. The bank is owned by Kimberly Leasing Corporation (total assets of \$95 million), a multi-bank holding company, headquartered in Augusta, Wisconsin. Kimberly Leasing Corporation also owns banks in Staples and Rush City, Minnesota. FNB is primarily a consumer lender with loans secured by residential real estate representing 42% of the loan portfolio. Loans to individuals for various purposes represent 34% of the portfolio. Commercial loans represent 24% of the loan portfolio. Net loans, at approximately \$20 million, currently comprise 57% of total assets.

The last CRA evaluation occurred on February 23, 1996, and FNB received a rating of "satisfactory". Since the last evaluation through March 31, 1999, FNB has grown the loan portfolio by approximately \$5.5 million which represents 169% of growth over the period. Various purpose commercial lending and consumer lending secured by residential real estate or automobiles were FNB's primary product

lines during this evaluation period. During this evaluation period, FNB established agreements with local automobile dealers to finance consumers' vehicle purchases.

FNB operates under a non-compete agreement that prohibits the establishment of branches or loan production offices in the Brainerd/Baxter, Minnesota area until January 2000. The Brainerd/Baxter area is approximately 20 miles from Crosby, Minnesota and contains the majority of the area's population within close proximity to the bank. No other financial or legal impediments limit the bank's ability to meet the credit needs within the assessment area.

DESCRIPTION OF THE ASSESSMENT AREA

FNB's assessment area (AA) includes all of Crow Wing and Cass Counties and west central Aitkin County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA contains 34 block numbering areas (BNAs). The income levels of the BNAs are as follows:

- < twenty (58.8%) are middle income,
- < twelve (35.3%) are moderate income, and
- < two (5.9%) are upper income.

There are no low income BNAs in the AA. Based on 1990 census data, the population of the AA is 74,186. There are 20,727 families within the AA. The housing stock is populated by a large level of vacation homes, secondary residences, and seasonal residences.

The bank's primary competitors include numerous institutions, branches of institutions, and mortgage companies, especially in the Brainerd/Baxter area. Local competition includes a credit union, a community bank branch, and two mortgage companies in Crosby. In addition, a multi-regional bank branch in Ironton, Minnesota, and a community bank in Deerwood, Minnesota provide competition for local credit needs.

Examiners made one new community contact and reviewed five other local contacts dating from September 1997 to February 1999. Contacts included representatives from an economic development agency in Crosby, three local Realtors, and the Crow Wing county tax assessors office. Credit needs identified in the AA are for affordable housing rental units; first-time home buyer down payment assistance programs; expanded home improvement/rehabilitation loan programs; and increased bank involvement in government-sponsored programs for low-income and first-time home buyers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio, while below area competition, has grown significantly and now represents a satisfactory lending level.

Since FNB's last CRA evaluation, the quarterly loan-to-deposit ratio averaged only 50%. Due to recent loan growth (between March 31, 1998 and March 31, 1999, FNB's loan portfolio increased 40%), FNB's loan-to-deposit ratio has increased and as of March 31, 1999 was 63%. Twelve local community banks competing within FNB's assessment area have loan-to-deposit ratios as of March 31, 1999 that range from 21% to 107%. FNB ranks as the second lowest loan-to-deposit ratio as of March 31, 1999.

While FNB's loan-to-deposit ratio is below area competition, lending levels are satisfactory given the following circumstances. As previously stated, FNB operates under a non-compete agreement that prohibits the establishment of branches or loan production offices in the Brainerd/Baxter, Minnesota area until January 2000. Examiners reviewed real estate application levels in 1997 through 1998 to generally assess the residence locations of applicants. FNB received few real estate purpose applications from the Brainerd/Baxter area, although it contains the majority of area population within close proximity to FNB. The number of competitors within the Brainerd/Baxter area that service the population's credit needs as well as the distance to an FNB office contribute to this lack of applications. In addition, during late 1997 through 1998, FNB experienced 50% loan officer turnover that limited its ability to generate loan volume.

Lending in the Assessment Area

The First National Bank of Crosby satisfactorily lends within its AA as evidenced by the high percentage of its loans originated within its assessment area.

The following table displays FNB's lending pattern by number of loans and dollar volume, based on a sample* of FNB's primary loan products.

Loan Type	# Within the AA	% of # Within the AA	\$ Within the AA	% of \$ Within the AA
Consumer Real Estate Secured	17	85%	\$882,610	93%
Consumer Auto Secured	13	65%	\$150,476	64%
Commercial Purpose	18	90%	\$2,369,273	85%
Total	48	80%	\$3,402,359	86%

* Examiners selected a random sample of 60 loans originated throughout the evaluation period to determine the proportion of loans made within the bank's assessment area, lending to borrowers and businesses, and geographic distribution. The sample included 20 consumer purpose, real estate secured originations; 20 consumer purpose, automobile secured loan originations; and 20 commercial purpose loan commitments.

As previously noted, various purpose commercial lending and consumer lending secured by residential

real estate or automobiles were FNB’s primary product lines during this evaluation period. During this evaluation period, FNB established agreements with local automobile dealers to finance consumers’ vehicles purchases. Given the limited number of dealerships within the AA, automobile secured lending levels are expected to result in more widely dispersed lending than other types of loan products.

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

The First National Bank of Crosby’s distribution of loans reflects satisfactory penetration to borrowers of different income levels and businesses of different sizes.

Consumer Lending:

The following table displays that FNB’s lending levels to borrowers of different income levels are comparable to the distribution of families within the AA, especially families with low- and moderate-incomes.

Income Level of Borrower**	Number of real estate secured %	Families within the AA %	Number of auto secured %
Low	5.9%	24.6%	46.2%
Moderate	41.2%	21.1%	15.4%
Middle	23.5%	22.4%	23.1%
Upper	29.4%	31.9%	15.4%

As displayed on the table, FNB’s real estate secured lending does not reflect the percentage of low-income families within the AA. Nonetheless, FNB’s real estate secured lending to low-income families is reasonable due to the level of low-income families that are below the poverty level. Approximately 72% of low-income families are also below the poverty level. Typically, families with incomes below the poverty level cannot qualify for standard real estate loan products. The percentage of low-income families with income above the poverty level is approximately 7% of the total families within the AA which is similar to FNB’s lending levels. In addition, FNB displays strong real estate secured lending levels in comparison to moderate-income families and strong auto secured lending compared to low-income families.

** Borrower income levels are based on the 1998 non-metro statewide median family income (median income) of \$40,500. The levels are defined as follows:

- Low income: < 50% of median income.
- Moderate income: 50% to < 80% of median income.
- Middle income: 80% to <120% of median income.
- Upper income: \$ 120% of median income.

Commercial Lending:

The following table displays that FNB's lending levels to businesses of various sizes, especially small businesses, is comparable to the distribution of businesses within the AA.

Annual Revenue Level (\$000s)	Number of loans (%)	Number of businesses reporting revenue (%)
# 250	16.8%	86.7%***
>250 - 500	55.5%	
>500 - 1,000	22.2%	5.9%
\$ 1,000	5.5%	7.4%

FNB's commercial lending is satisfactorily dispersed among the various business sizes within the AA and especially to small businesses. A small business is defined as having annual revenues of less than \$1 million.

*** Reporting businesses do not segregate revenues below \$500,000.

Geographic Distribution of Loans

The geographic distribution of the bank's lending is satisfactory.

The following table displays that FNB's consumer lending levels within the various geographies of the AA are comparable to the housing and population demographics within the AA.

Income level of BNA	Number of real estate secured loans originated (%)	Percent of the total number of owner-occupied housing within the AA (%)	Number of auto secured loans originated (%)	Percent of the total population within the AA (%)
Low	Not applicable as no BNAs within the AA are low income.			
Moderate	17.65%	28.87%	38.46%	27.00%
Middle	82.35%	64.22%	61.54%	64.30%
Upper	0	6.92%	0	8.70%

FNB's real estate secured loan penetration throughout the moderate-income geographies is reasonable given the distance of the majority of moderate-income BNAs from FNB offices. Crow Wing County,

where FNB is located, contains only one moderate-income BNA. This BNA contains FNB's Emily branch but only accounts for 2.4% of the total number of owner-occupied housing within the AA. In addition, competitor banks are located within or closer to the remaining moderate-income BNAs within the AA.

The lack of lending within upper-income BNAs is also reasonable given the low number of upper-income BNAs (2 of 34). One upper-income BNA is located in the Brainerd/Baxter area, to which competition and a non-compete agreement hinder FNB's lending opportunities. The remaining upper-income BNA contains only 2 housing units.

Response to Complaints

FNB did not received any CRA-related complaints during this evaluation period.

Record of Compliance with Antidiscrimination Laws

Examiners did not identify any violations of substantive provisions of antidiscrimination laws or regulations. Examiners conducted a comparative fair lending review to determine this conclusion. The review compared the treatment of nine individual female applicants denied for credit to eighteen individual male applicants approved for credit. The sample included only applications received from January 1, 1999 to March 31, 1999 for the purpose of automobile purchases.