



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 20, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 7647**

**101 West Lake Street
Chisholm, Minnesota 55719**

**Office of the Comptroller of the Currency
Duluth Duty Station
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 **First National Bank, Chisholm, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 20, 1996. 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".

First National Bank is originating loans throughout its assessment area consistent with the credit needs of the community. The bank has done a good job of providing long term fixed-rate mortgages which are later sold on the secondary market. This practice has allowed the bank to meet a community credit need while freeing up additional funds for credit.

The following table indicates the performance level of **First National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST NATIONAL BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the last examination.		

DESCRIPTION OF INSTITUTION

First National Bank (FNB) is a \$51 million financial institution located in the city of Chisholm, Minnesota. The bank has one full-service branch located in Cook, Minnesota, one remote drive-up facility in Chisholm, and a loan production office in Grand Rapids, Minnesota. The bank is wholly owned by Chisholm Bancshares, Inc., which is a one-bank holding company located in Chisholm, Minnesota. There are no financial or legal factors which impede the bank's ability to meet community credit needs. The bank has established itself as the area's leader in providing long term fixed-rate residential real estate loans which are sold on the secondary market. Loans retained by the institution comprise 57% of the bank's total assets and are centered in consumer related credit. The loan portfolio composition is as follows: 39% consumer installment loans, 32% consumer real estate loans, and 29% commercial loans. The proportion of loans by category has remained relatively stable since our last CRA examination. Our office completed a CRA examination of FNB in May of 1993 and assigned the bank a "Satisfactory" rating.

DESCRIPTION OF FIRST NATIONAL BANK'S ASSESSMENT AREA

The bank's assessment area encompasses 21 census tracts in the northwestern half of St. Louis County, Minnesota. St. Louis County is located in Metropolitan Statistical Area (MSA) 2240. The assessment area contains one low-income census tract, three moderate-income census tracts, and 17 medium-income census tracts. The assessment area does not arbitrarily exclude any low- or moderate-income areas. The assessment area includes several small cities including Chisholm, Cook, Eveleth, Gilbert, Virginia, Hibbing, Buhl, and Biwabik, as well as several other townships. Several other banks have main offices or branches in the bank's assessment area, which makes competition for loans and deposits significant.

The assessment area has a population of approximately 60,000 people. The area economy is dependent on mining, logging, tourism, and small manufacturing. The median family income for the MSA is \$38,600. We recently contacted local government officials and area Realtors to discuss the credit needs of the community. These contacts indicated community credit needs are well served by the numerous financial institutions in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

FNB is doing a good job of lending to the community. Although the bank's loan to deposit ratio is similar to peer levels, the bank originates a significant amount of secondary market loans which makes its overall lending performance compare very favorably to peer. The bank's average loan to deposit ratio since our last CRA examination in June of 1993 is 64%. This ratio is comparable with the local peer group's loan to deposit ratio of 63%. To establish the local peer group ratio, we averaged all banks located in the MSA with total

assets less than \$100 million.

As noted above, FNB's lending performance is further enhanced by the large volume of long term fixed-rate mortgage loans originated and sold on the secondary market. Although peer group comparisons are unavailable, through community contacts we determined that FNB is a community leader in providing such loans. During 1995, FNB originated 168 loans totaling \$8.3 million which were later sold on the secondary market. Through the first six months of 1996, the bank originated 109 secondary market loans totaling \$6.1 million.

Lending in Assessment Area

FNB originates the majority of its loans within its assessment area. We reviewed the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) for the first six months of 1996. Of the 115 home loans originated during that time period, 83% originated within the bank's assessment area.

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

FNB is satisfactorily providing credit to borrowers of different incomes and to businesses of different sizes. The percentage of loans made to low- and moderate-income individuals approximates the income characteristics of the assessment area population. Our review of home loans made through the first six months of 1996 showed that loans to individuals with low- and moderate-incomes make up 33% by number and 27% by dollar volume. By comparison, low- and moderate-income individuals make up 39% of the population in the bank's assessment area. The following table shows a breakdown of loans by income level.

Loan Distribution - Borrower Income

<u>Income</u>	<u>% of Median Family Inc.</u>	<u>Originations by #</u>	<u>Originations by \$</u>	<u>Assessment Area Population %</u>
Low	(50% or less)	7%	4%	21%
Moderate	(51% to 79%)	26%	23%	18%
Middle	(80% to 119%)	44%	42%	24%
Upper	(120% or more)	23%	31%	37%

Based on our review of 30 commercial loans, we determined that FNB makes loans to businesses of various sizes. The table on the next page shows a reasonable dispersion of loans to both small and large businesses.

<u>Business Revenues</u>	<u># of Commercial Loans</u>	<u>% of Commercial Loans</u>
< \$100M	9	30%
\$101M-\$250M	10	33%
\$251M-\$500M	2	7%
\$501M-\$1,000M	1	3%
> \$1,000M	8	27%

Geographic Distribution of Loans

FNB's distribution of loans throughout the assessment area is reasonable, considering competitive factors and the bank's proximity to low- and moderate-income census tracts. During our sample period, the bank had very little lending activity in the one low- and three moderate-income census tracts. However, the lack of activity in the three moderate-income census tracts is attributable to the competition from several other banks, credit unions, and finance company's which are located within each of these census tracts. FNB's long distance from each of the moderate-income census tracts makes it much easier for consumers to seek credit from these other financial institutions. The low-income census tract is a very small rural area with only seven households. Consequently, it is not surprising that the bank made no loans in this census tract during our six month sample period. The remainder of the census tracts in the bank's assessment area are medium-income.

Responses to Complaints

FNB has received no CRA related complaints since our last CRA examination.

Record of Complying with Antidiscrimination Laws

No violations of the substantive provisions of antidiscrimination laws and regulations were identified.