



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 30, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Moose Lake
Charter Number 12947**

**400 Elm Avenue
Moose Lake, MN 55767**

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

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The First National Bank of Moose Lake (FNB) originates a reasonable volume of loans within its assessment area.
- FNB reasonably originates loans to borrowers of different income levels and businesses of different sizes considering the demographics of the assessment area.
- The distribution of loans throughout the assessment area is reasonable.

DESCRIPTION OF INSTITUTION

FNB is a \$45 million institution located in rural eastern Minnesota. FNB has two offices in Moose Lake, Minnesota (population 1,700) which is located approximately 50 miles south of Duluth, Minnesota. FNB is wholly owned by First Financial Services of Moose Lake, a \$5 million one-bank holding company. First Financial Services also wholly owns First National Agency of Moose Lake, Inc., an insurance brokerage with offices at FNB. FNB's primary lending products include residential real estate, commercial, and commercial real estate loans. As of June 30, 2001, the \$33.2 million loan portfolio was composed of \$11.6 million in residential real estate loans (34.9% of total loans), \$11.5 million in commercial real estate loans (34.6%), \$5.2 million in commercial loans (15.7%), \$2.9 million in consumer loans (8.7%), and \$2.0 million in other loans (6.1%). Net loans and leases comprise 73% of FNB's total assets.

There are no legal or financial constraints on FNB that would inhibit its CRA performance. FNB's last CRA evaluation dated June 28, 1996 rated FNB's performance as "satisfactory".

DESCRIPTION OF THE FIRST NATIONAL BANK OF MOOSE LAKE'S ASSESSMENT AREA

FNB's assessment area (AA) consists of the majority of Carlton County, the northern portion of Pine County, and the eastern portion of Aitkin county. The AA consists of the same eight block numbering areas (BNAs) that were evaluated during FNB's June 28, 1996 CRA evaluation. The AA meets the requirements of the regulation. The median family income for the AA is \$28,100 as compared to the state-wide nonmetropolitan median family income of \$44,300. Based on the state-wide median family income, seven of the eight BNAs are designated as middle-income geographies while the single BNA composing eastern Aitkin county is designated as a moderate-income geography. As a percentage, 88% of AA BNAs are designated middle-income while 12% are considered moderate-income. However, only 6% of the AA population and 7% of AA owner occupied housing units reside in the moderate-income tract. The AA population is approximately 28,000 based on 1990 census data. The bank's main office and single branch are located in the city of Moose Lake which itself lies in a middle-income BNA. The median housing value for the AA is \$43,000 with approximately 61% of all AA housing units owner-occupied.

We contacted a Moose Lake city official as part of this CRA evaluation. The official described local economic conditions as strong with a solid base of good-paying jobs in or near the city of Moose Lake. Unemployment rates for Pine and Carlton counties were both near 5% as of July 2001. Local employment is led by state facilities such as the prison and psychopathic center. Healthcare facilities are also a significant local employer. Twenty-one percent families residing in the AA are classified as low-income while 20% are classified as moderate-income. Middle- and upper-income families compose 22% and 37% of AA families, respectively. The community contact noted that there is limited real estate available for housing of any type in and around the city of Moose Lake. Further, real estate values have reflected strong appreciation in recent years.

There are several other similarly sized financial institutions in FNB's assessment area. Moose Lake Federal Credit Union is FNB's most direct competitor as it is also located in the city of Moose Lake. Other financial institutions provide strong competition for customers near their offices in the other cities included in FNB's assessment area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable. The bank's average quarterly loan-to-deposit ratio since the last CRA evaluation is 79.6%. This ratio is slightly below the quarterly average loan-to-deposit ratio for seven other community banks with main offices in Pine, Carlton, and Aitkin counties, each with total assets less than \$75 million. The average loan-to-deposit ratio of these seven peer banks for the twelve quarters ending March 2001 was 84.1%. Only twelve quarters of data was available for peer institutions. FNB's average loan-to-deposit ratio was 82.7% for these twelve quarters ranking it fifth of the eight total banks. FNB also originated \$4,158,000 in residential real estate loans between 1997 and 2001 that were sold on the secondary market and are not reflected in its loan-to-deposit ratio.

Lending in Assessment Area

FNB originates a majority of loans within its assessment area. Management internally codes the location of all borrowers by BNA. For our sample, we reviewed bank management's internal reports that detailed the location of residential real estate and commercial and commercial real estate loan originations in 1999 and 2000. Over this period, FNB originated 85% of the total number of residential real estate loans and 76% of the dollar volume of residential real estate loans within its assessment area. FNB originated 86% of the total number and 61% of the dollar volume of commercial and commercial real estate loans within its assessment area over this same period.

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

FNB’s distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable and reflects the demographics of the assessment area. The table below represents data taken from a random sample of 40 loans secured by residential real estate including home equity, refinance, and purchase loans. Income data was compiled from census data and the Department of Housing and Urban Development.

Income Level of Borrowers	Loan Originations by Dollar	Loan Originations by Number	Families in Assessment Area
Low (< \$22,150)	3%	10%	21%
Moderate (\$22,150-35,439)	15%	20%	20%
Middle (\$35,440-53,160)	47%	33%	22%
Upper (>\$53,160)	35%	37%	36%

FNB’s distribution of business loans is also reasonable. The table below represents data taken from a random sample of 23 commercial and commercial real estate loans located in the bank’s assessment area. Assessment area data was compiled from 2000 Businesses Geodemographic Data. Approximately 5% of assessment area businesses did not report gross revenue data.

Gross Annual Business Revenues (000s)	Loan Originations by Dollar	Loan Originations by Number	Businesses in Assessment Area
\$1-250	25%	60%	85%
\$251-500	20%	16%	
\$500-1,000	29%	8%	5%
> \$1,000	26%	16%	5%

Geographic Distribution of Loans

The geographic distribution of loans throughout the assessment area is reasonable. Based on our sample of residential real estate and commercial loans discussed above, the distribution of loans throughout the assessment is reasonable considering the location of competing financial institutions, distance of individual BNAs from the FNB’s branches, and the population and geographic characteristics of the assessment area. The majority of both residential real estate and commercial/commercial real estate loans are originated in the BNA containing FNB’s main office and branch, which is a middle income tract.

Responses to Complaints

FNB has not received any CRA related complaints since its last CRA evaluation dated June 28, 1996.

Fair Lending Review

An analysis of 1996 to 2000 public comments and consumer complaint information was

performed according to the OCC's risk based fair lending approach. Based on our analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1996.