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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

October 31, 1997

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Little Falls  
Charter Number 4034  
101 East Broadway  
Little Falls, Minnesota 56345**

**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 First National Bank of Little Falls prepared by the Comptroller of the Currency, the institution's supervisory agency, as of October 9, 1997. 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 “**Outstanding**”.

First National Bank of Little Falls (FNB) is strongly meeting the credits needs of its Assessment Area. It is doing so through a large volume of loan originations to individuals of all income levels, with an emphasis on originating loans for individuals with low- and moderate-income levels. FNB’s lending also focuses upon originating loans to small businesses and small farms of various sizes. FNB makes a majority of these loans within its assessment area, as well as, throughout its assessment area.

### **DESCRIPTION OF INSTITUTION**

The First National Bank of Little Falls (FNB) is a \$58 million dollar community bank. FNB locations include its main office and one full-service branch, both in Little Falls, Minnesota. Little Falls is the county seat and is located roughly in the center of Morrison County. FNB also has two automated teller machines; one located at the main office and another at a nearby grocery store.

Loan originations focus upon residential real estate loans (most of these loans are subsequently sold on the secondary market), small business loans, small farm loans, and loans to consumers. FNB also purchases a large volume of commercial loans from

its affiliate banks. As of September 30, 1997, these purchased loans represented 26% of total outstanding loans. These combined activities result in a loan mix which is more concentrated in commercial loans than other local banks of similar size. The percentages below highlight FNB's loan portfolio mix (excluding the residential real estate loans that have been sold) as of June 30, 1997:

- 53% commercial/commercial real estate,
- 20% residential real estate,
- 14% consumer, and
- 13% agricultural/agricultural real estate.

The bank is owned by Zappco, Inc., a multi-bank holding company. Other affiliates of FNB include Zapp National Bank, Melrose Bancshares, Melrose State Bank, Zapp Data, Inc., Bank Plaza Partnership, and Cloud and Company. FNB's CRA performance is not restricted by any legal impediments nor financial constraints.

### **DESCRIPTION OF ASSESSMENT AREA**

Morrison County, FNB's Assessment Area, is located in mid Minnesota, outside of any Metropolitan Statistical Area (MSA). The county has a population of approximately 30 thousand people, with the City of Little Falls having the largest population base of just under eight thousand people. Morrison County consists of eight block numbering areas (BNAs). All BNAs, but one, are designated as middle-income geographies. BNA 9807.00 is designated as a moderate-income geography. (This designation is based on a percentage of the weighted average of the Minnesota non-MSA 1990 census median family income, \$28,933.)

The local economy is considered stable and reliant upon jobs in agriculture, forestry, small manufacturing, health care, government, and tourism. The agricultural sector continues to play a dominant role in the economy. Farming operations consist predominately of small dairy, livestock, and crop farms.

As part of this examination, we reviewed community contact information gathered by this and other regulatory agencies in 1997. We also reviewed demographic data provided by the bank and other sources. We also contacted representatives of other local banks of similar size to discuss their level of residential real estate loan sales to the secondary market.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **LOAN-TO-DEPOSIT RATIO**

FNB's loan-to-deposit ratio is more than reasonable given the bank's size and condition, its practice of selling most residential real estate loans to the secondary market, credit needs of the assessment area, and comparisons to other local banks.

FNB's quarterly loan-to-deposit ratio averaged 65% since its last CRA examination, compared to 62% for other local banks of similar size. On the surface, this ratio appears no better than reasonable; however, FNB's ratio is greatly impacted by its practice of selling many residential real estate loans to the secondary market. Since its last CRA examination, FNB has originated \$10.7 million of residential real estate loans and subsequently sold \$6.6 million dollars of them. Adding these sold loans back to FNB's loan-to-deposit ratio increases it up to 80%. This level is clearly well above other local banks of similar size. (Note: It is appropriate to add back these sold loans for comparison purposes as no other local bank of similar size sold loans prior to 1997. And the one bank who began selling loans in 1997 has sold a very small amount to date.)

### **LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES**

FNB is making a strong effort to make loans to individuals of all income levels and businesses and farms of different sizes. In fact, FNB is originating loans to individuals with low- and moderate-income levels at a level that is well above the demographics of the Assessment Area. And FNB is originating business and farm loans to very small local operations. FNB's loans to larger businesses are made through its purchase of loans from affiliates.

The two charts on the next page support these conclusions and display the data of our sample of 58 consumer and 32 business/farm loans, 90% of all such loans originated in June and August of 1997. (Note: "M" in the table below means thousands and "Demogs" stands for demographics. Also, the weighted average of Minnesota's non-MSA updated median family income for 1997 is \$38,400.)

<b>Loan Distribution by Borrower Income</b>					
<b>Individuals</b>	<b>Number</b>	<b>As a % of #</b>	<b>Dollar (M)</b>	<b>As a % of \$</b>	<b>Demogs</b>
Low	20	35%	\$218	14%	23%
Moderate	15	26%	\$323	20%	20%
Middle	10	17%	\$373	23%	23%
Upper	13	22%	\$698	43%	34%
Total	58	100%	\$1,612	100%	100%

<b>Loan Distribution by Business or Farm Revenue Levels</b>					
<b>Revenues</b>	<b>Number</b>	<b>As a % of #</b>	<b>Dollar</b>	<b>As a % of \$</b>	Community contact data revealed a small-business and small-farm operations base.
< \$100M	17	53%	\$225	13%	
to < \$250M	9	28%	\$978M	53%	
to < \$500M	4	13%	\$610M	32%	
to < \$750M	1	3%	\$20M	1%	
to < \$1,000M	1	3%	\$16M	1%	
\$1,000M+	32	100%	\$1,849M	100%	

### LENDING IN ASSESSMENT AREA

FNB originates the majority of its loans within its assessment area. A sample of all loans originated in June through August 1997 (262 loans), showed that 74%, by dollar, were from within the Assessment Area. By number, this sample showed that 86% of originated loans were from within the Assessment Area. The sample includes both loans purchased and sold during this time period.

## GEOGRAPHIC DISTRIBUTION OF LOANS

FNB's lending patterns show a reasonable dispersion of originations, including originations within the Assessment Area's one moderate-income geography. The same sample data used in the previous performance criteria category showed that FNB's penetration is in line with the demographics of the Assessment Area. In particular, by number or dollar, FNB has originated just over 8% of its loans within the one moderate-income geography (BNA 9807.00) since its last CRA examination. This level of originations is consistent with the population of this geography which represents just over 8% of the Assessment Area's total population. FNB is also originating loans in each of the Assessment Area's seven other geographies, which are all designated as middle-income.

## RESPONSE TO COMPLAINTS

FNB has not received any CRA complaints since its last CRA examination.

## RECORD OF COMPLYING WITH ANTIDISCRIMINATION LAWS

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