



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**October 14, 2003**

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

**The First National Bank of Crosby  
Charter Number 9838**

**15 East Main Street  
Crosby, MN 56441**

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

## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

The First National Bank of Crosby (FNB Crosby) is satisfactorily meeting the credit needs of its assessment area. This is best demonstrated by:

- Origination of a substantial majority of residential real estate, commercial and commercial real estate, and consumer automobile loans within its assessment area.
- The distribution of loans in the assessment area to borrowers of different incomes and businesses of different sizes is reasonable and meets or exceeds most demographic benchmarks.
- The geographic distribution of loans to businesses and individuals within the assessment area is excellent and exceeds most demographic benchmarks.

## **DESCRIPTION OF INSTITUTION**

FNB Crosby is a \$46 million bank located in central Minnesota. The bank's main office is a full-service facility located in Crosby, Minnesota, which is approximately 130 miles north of the Minneapolis / Saint Paul area. There are two full-service branches located in Outing and Emily, Minnesota. The bank operates one cash-dispensing automated teller machine (ATM) located at the SuperValu grocery store in Crosby.

FNB Crosby's business focus is residential real estate, commercial and commercial real estate, and consumer lending. According to its Report of Condition and Income, FNB Crosby's loan portfolio was comprised of the following loan types, by outstanding dollar volume on December 31, 2002: 1) residential real estate (51% of total loans); 2) commercial and commercial real estate (28%); consumer (20%); and agriculture and agricultural real estate (1%). Net loans represent 53% of total assets.

The bank is 100% owned by Kimberly Leasing Corporation. Kimberly Leasing Corporation is a \$127 million three-bank holding company headquartered in Augusta, Wisconsin. The bank is affiliated with two additional holding companies, Augusta Financial Corporation and Caprice Corporation, and four state banks: First State Bank of Rush City, Rush City, MN; Red Lake County State Bank, Red Lake Falls, MN; Security State Bank, Staples, MN; and Peoples State Bank, Augusta, WI. The affiliation with these institutions is based on common ownership.

FNB Crosby received a "Satisfactory" rating during its May 10, 1999 CRA evaluation. This Performance Evaluation assesses the bank's CRA activities from June 1, 1999, through December 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs of its assessment area.

## DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of 30 block-numbering areas (BNAs) in three counties. These adjoining BNAs surround the bank's office locations. The assessment area includes the southern half of Cass County (BNAs 9601 through 9604, 9606 through 9609, and 9613), all of Crow Wing County (BNAs 9501 through 9516), and the western half of Aitkin County (BNAs 9902, 9905 through 9907, and 9909). The area contains small towns surrounded by large tracts of rural, undeveloped, and non-agricultural areas. The area's population was estimated at approximately 67 thousand people in the 1990 U.S. census.

The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income geographies. The table below shows that the assessment area is comprised of ten moderate-, eighteen middle-, and two upper-income geographies based on 1990 census data. It also shows a distribution by family income level for the assessment area.

<b>Income Distribution of Geographies and Families</b>								
Assessment Area	Percentage of BNAs				Percentage of Families			
	Low	Mod	Mid	Upper	Low	Mod	Mid	Upper
FNB Crosby Assessment Area	0%	33%	60%	7%	24%	21%	23%	32%

Source: U.S. census data (1990)

Competition for loans and deposits is strong as there are several financial institutions located in the bank's assessment area. Competing community banks range in asset size from \$19 million to \$258 million. Also, branches of large regional banks reside in the assessment area and compete for market share.

The economy of the bank's assessment area relies on service, retail, government, and manufacturing industries. Major employers in Crow Wing County include Cuyuna Regional Medical Center, Crosby School District, and Riverwood International. As of September 2003, the unemployment rate for Crow Wing County was 4.1%, which is below the unemployment rate for the State of Minnesota (4.4%) and the United States (5.8%). Updated median family income for Minnesota's non-Metropolitan Statistical Areas increased to \$48,500 in 2002 compared to \$25,848 based on 1990 Census data. Households with incomes below the poverty level are high at 16%. Also, 1990 Census data indicated that the weighted-average median housing value was \$56,785. Updated 2000 Census-housing figures for Crow Wing County show that the median housing value has increased to \$107,500.

A local government official was contacted during this evaluation to assist with assessing the credit needs of the assessment area. This contact indicated that the product lines offered by this and other local financial institutions fit the credit needs of the area. Bank management is actively involved in various community organizations and activities.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Lending in Assessment Area

FNB Crosby originates a substantial majority of its loans to borrowers located within its assessment area. Based on a sample of 60 loans, 97% by number and 98% by dollar volume were originated within the assessment area. These ratios were calculated using 20 randomly selected loans for each of the bank's primary loan products: commercial (including commercial real estate); residential real estate; and consumer automobile loans. The samples were selected from loans originated throughout the evaluation period for each primary loan product.

<b>Lending in Assessment Area by Number and Dollar Amount (000s)</b>				
Type of Loan	Number of Loans	Percent by Number	Dollar Amount of Loans	Percent by Dollars
Commercial	20	100%	\$1,068	100%
Residential Real Estate	19	95%	\$779	96%
Consumer	19	95%	\$192	98%
Total	58	97%	\$2,039	98%

Source: Bank Records (verified by examiners)

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

FNB Crosby's distribution of loan originations within the assessment area to borrowers of different income levels and businesses of different sizes is reasonable.

Residential real estate lending performance is reasonable when compared to the demographics of the assessment area. Lending to low-income borrowers by both number (8%) and dollar (2%) is below the demographic of 24% for the assessment area. However, a large percentage of the population (12% of families and 16% of households) is below the poverty level. Additionally, both our community contact and bank management indicated that a lack of affordable housing exists in the assessment area. Lending to moderate-income borrowers exceeds the demographic of 21% by both number (27%) and dollar (31%) of loans. The following table shows the bank's distribution of residential real estate loans to borrowers of different income levels compared to the demographics. The data was compiled from 40 randomly selected residential real estate loans originated in the assessment area throughout the evaluation period. The loans were analyzed and categorized based upon the updated 2002 Minnesota non-Metropolitan Statistical Area (MSA) median family income.

<b>Distribution of Residential Real Estate Loans by Borrower Income Level</b>					
Borrower Income Level	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Dollar Amount	Percent of Families in Assessment Area
Low	3	8%	\$53	2%	24%
Moderate	11	27%	\$682	31%	21%
Middle	11	27%	\$731	34%	23%
Upper	15	38%	\$712	33%	32%
Total	40	100%	\$2,178	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Commercial loan originations meet the assessment area demographics for businesses that reported revenue. The following table shows that the bank's distribution of commercial loans to businesses with various annual revenues meets the demographics. The data was compiled from 20 randomly selected commercial loans originated in the assessment area throughout the evaluation period.

<b>Distribution of Commercial Loans by Business' Revenue Size</b>					
Gross Annual Revenue (000s)	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Dollar Amount	Business Demographic Data
Revenues <\$50	3	15%	\$9	1%	
Revenues \$50-\$100	4	20%	\$101	9%	
Revenues \$100-\$250	7	35%	\$356	33%	
Revenues \$250-\$500	3	15%	\$262	25%	
Revenues \$500-\$1,000	2	10%	\$265	25%	
Total Revenues <\$1,000		95%	\$993	93%	94%*
Total Revenues >\$1,000	1	5%	\$75	7%	6%*
Total	20	100%	\$1,068	100%	100%*

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

\*Note: Business demographic data is for reporting companies only. In the assessment area, 22% of businesses did not report their revenue.

Based on the number of loans, the bank's distribution of consumer loans by the borrower's income level exceeds the demographics for low- and moderate-income households. The following table shows the bank's distribution of consumer loans to borrowers of different income levels compared to the percent of households in the assessment area by income level. The data was compiled from 40 randomly selected consumer automobile loans originated in the assessment area throughout the evaluation period.

<b>Distribution of Consumer Automobile Loans by Borrower Income Level</b>					
<b>Borrower Income Level</b>	<b>Number of Loans</b>	<b>Percent by Number</b>	<b>Dollar Amount (000s)</b>	<b>Percent by Dollar Amount</b>	<b>Percent of Households in Assessment Area</b>
Low	13	33%	\$82	24%	28%
Moderate	14	35%	\$106	31%	18%
Middle	7	17%	\$80	23%	19%
Upper	4	10%	\$67	19%	35%
Not Available	2	5%	\$12	3%	0%
Totals	40	100%	\$347	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

### **Geographic Distribution of Loans**

The bank's geographic distribution of loans throughout the assessment area is excellent. Origination of residential real estate, commercial, and commercial real estate loans exceeds the demographics of the assessment area. Consumer automobile lending is similar to the demographics of the assessment area. Lending activity includes loan originations to borrowers residing in most BNAs. A majority of the moderate-income BNAs are located some distance from the bank's office locations. Competition from other financial institutions which have offices located in these BNAs is significant. The bank's assessment area does not contain any low-income BNAs.

Residential real estate originations exceed the demographics for moderate-income BNAs by both the number and dollars originated. The following table represents the overall geographic distribution of a sample of 40 residential real estate loans originated within the assessment area throughout the evaluation period.

<b>Geographic Distribution of Residential Real Estate Loans by Income Level</b>					
BNA Income Level	Number	Percent by Number	Dollar Amount (000s)	Percent by Dollar Amount	Percent of Owner-Occupied Homes by BNA
Low	0	0%	\$0	0%	0%
Moderate	19	48%	\$832	38%	27%
Middle	19	47%	\$1,248	57%	65%
Upper	2	5%	\$98	5%	8%
Totals	40	100%	\$2,178	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (1990)

The geographic distribution of commercial originations exceeds the demographics for moderate-income BNAs, as demonstrated by the table below.

<b>Geographic Distribution of Commercial Loans by Income Level</b>					
BNA Income Level	Number	Percent by Number	Dollar Amount (000s)	Percent by Dollar Amount	Percent of Businesses by BNA
Low	0	0%	\$0	0%	0%
Moderate	7	35%	\$363	34%	23%
Middle	13	65%	\$705	66%	67%
Upper	0	0%	\$0	0%	10%
Totals	20	100%	\$1,068	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

The geographic distribution of consumer originations is below the demographics of the area for moderate-income geographies. This lower penetration level is reasonable given the location of these BNAs in relation to FNB Crosby's office locations and the significant competition in these areas. The following table shows the overall geographic distribution of a sample of 40 consumer loans originated within the assessment area during the evaluation period.

<b>Geographic Distribution of Consumer Automobile Loans by Income Level</b>					
BNA Income Level	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Dollar Amount	Percent of Households by BNA Category
Low	0	0%	\$0	0%	0%
Moderate	5	13%	\$35	10%	24%
Middle	32	80%	\$278	80%	67%
Upper	3	7%	\$34	10%	9%
Totals	40	100%	\$347	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (1990)

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

FNB Crosby's quarterly net loan-to-deposit ratio is less than reasonable considering the bank's size, financial condition, and the credit needs of the assessment area. The bank's quarterly net loan-to-deposit ratio averaged 56% from June 30, 1999 to December 31, 2002. This ratio ranged from 49% to 62% over this time period. FNB Crosby's net quarterly loan-to-deposit ratio totaled 58% as of December 31, 2002.

FNB Crosby's average quarterly net loan-to-deposit ratio is significantly lower than other similarly situated institutions. Nine similarly situated financial institutions with total assets ranging from \$42 million to \$147 million have main offices or branches in the assessment area. The average quarterly net loan-to-deposit ratio for this peer group is 88%. Peer average ratios ranged from a low of 71% to a high of 110%, during the 14 quarters from June 30, 1999 through December 31, 2002. FNB Crosby's loan-to-deposit ratio ranks last among the similarly situated banks chartered in the assessment area. The cause is a direct factor of historically high employee turnover in the bank's lending department and prior Board member concerns over a high loan-to-deposit ratio. The turnover has made it extremely difficult for the bank to maintain loan growth.

Management has set a goal of achieving and maintaining a 70% loan-to-deposit ratio going forward given the current lending staff.

### **Responses to Complaints**

There have been no CRA-related complaints since the last CRA evaluation.

### **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.