



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

January 28, 2013

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

The First National Bank of Moose Lake  
Charter Number 12947

400 Elm Avenue  
Moose Lake, MN 55767

Office of the Comptroller of the Currency

222 9th Street South  
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.

**INSTITUTION'S CRA RATING: This institution is rated Outstanding.**

- The First National Bank of Moose Lake (FNB) originates a majority of loans by number and dollar amount within its assessment area.
- Lending to businesses of different sizes and to consumers of different income levels is excellent.
- The bank's average loan-to-deposit ratio is more than reasonable.

**SCOPE OF EXAMINATION**

We evaluated FNB's Community Reinvestment Act (CRA) performance from February 13, 2007 to December 31, 2011. We focused our assessment on the bank's primary products based on loan originations by number and dollar volume from January 1, 2010, through December 31, 2011. Business loans and consumer loans were the bank's primary loan products during our evaluation period. By dollar amount, business loans accounted for approximately 41.38 percent and consumer loans accounted for approximately 29.55 percent of all loan originations. Given the larger dollar volume of business loans, more weight was given to this product in our analysis.

**DESCRIPTION OF INSTITUTION**

FNB is a \$73 million institution located in rural eastern Minnesota. FNB operates two offices and one automated teller machine (ATM) in the city limits of Moose Lake. The ATM is located at Market Place Foods in Moose Lake. FNB's offices offer traditional banking products and services and maintain standard banking hours. The bank is 100 percent owned by First Financial Services of Moose Lake with \$9 million in assets at December 31, 2012.

FNB's primary products consist of business and consumer lending. As of September 30, 2012, FNB's loan portfolio totaled \$54.3 million, or 74 percent of total assets, and was comprised of the following: \$27.7 million in commercial loans; \$12.7 million in 1-4 family 1<sup>st</sup> residential real estate mortgages, \$10.4 million in home equity lines of credit, \$3.4 million in consumer loans, and \$131M in other loans.

FNB received a satisfactory rating at its last CRA examination dated February 13, 2007. There are no legal or financial constraints on FNB that would inhibit its CRA performance.

**DESCRIPTION OF ASSESSMENT AREA(S)**

FNB's assessment area (AA) consists of nine census tracts (CTs) in two counties. The bank's AA includes all of Carlton County, which is part of the Duluth Metropolitan Statistical Area (MSA), and two CTs in the northern portion of Pine County. The two CTs in Pine County are near to the bank's location and do not substantially extend beyond the Duluth MSA. The AA meets the requirements of the regulation and does

not arbitrarily exclude any low- or moderate-income geographies. See tables below for census tract and family income details.

<b>Assessment Area by Income Level</b>	<b>Number of Census Tracts</b>	<b>Percent of Census Tracts</b>
Low-Income	0	0.00%
Moderate-Income	0	0.00%
Middle-Income	8	89.00%
Upper-Income	1	11.00%

Source: 2000 US Census Data

<b>Family Income Level</b>	<b>Percent of Families</b>
Low-Income	17.11%
Moderate-Income	18.28%
Middle-Income	24.32%
Upper-Income	40.29%

Source: 2000 US Census Data

The area’s population was estimated at 36,450 in the 2000 US Census. There are a total of 9,709 families located within the AA. The 2011 Updated HUD Estimated Median Family Income in the MSA was \$61,500 compared to the non-MSA statewide median family income of \$59,200. The 2000 US Census data indicates that 5.86 percent or 569 families in the AA are below the poverty level. The US Census data indicates the median housing value for the bank’s AA was \$84,729 with 67.47 percent of all housing units being owner-occupied.

According to the Bureau of Labor Statistics, unemployment in the State of Minnesota as of December 2012 was 5.4 percent, compared to 6.7 percent for Carlton County and 8.6 percent for Pine County. The nationwide unemployment rate as of December 2012 was 7.8 percent. Major employers in the City of Moose Lake include Mercy Hospital and Health Care Center, Minnesota Department of Corrections, The Department of Human Services, Moose Lake Public Schools, and Gateway Family Health Clinic.

Bank competition in FNB’s AA is moderate. There are several other similarly sized financial institutions in the area. Lake State Federal Credit Union is FNB’s most direct competitor as it is also located in the City of Moose Lake. FNB ranks 3<sup>rd</sup> in deposit market share out of 11 banks with a presence in the AA. As of June 30, 2012, FNB had 12.01 percent of the market share in Carlton and Pine Counties according to deposit information obtained from the FDIC.

The community contact stated that the local banks have done a great job of meeting the credit needs of the community. The local financial institutions are very involved in area events and growth of the community. They have supported lending in Moose Lake and surrounding areas.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is more than reasonable. From March 31, 2007 to September 30, 2012, the bank's quarterly loan-to-deposit ratio ranged from 83 percent to 108 percent and averaged 94 percent. FNB ranks first among similarly situated banks (defined as banks with offices located in the AA with total assets between \$50 million and \$150 million as of September 2012).

Institution	Assets (as of 9/30/12)	Average LTD 2Q07 – 3Q12
First National Bank of Moose Lake	\$ 73 million	94%
Woodlands National Bank	\$137 million	85%
Cornerstone State Bank	\$122 million	85%
Northwoods Bank of Minnesota	\$ 113 million	77%

Source: Call Report Data

### Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its defined AA. Loans originated to businesses and consumers within the bank's AA total 82.5 percent by number and 81 percent by dollar volume. The following table shows lending in the AA by product type:

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	80%	4	20%	20	\$501,917	79%	\$135,889	21%	\$637,806
Consumer	17	85%	3	15%	20	\$178,704	89%	\$ 22,733	11%	\$201,437
Total	33	82.5%	7	17.5%	40	\$680,621	81%	\$158,622	19%	\$839,243

Source: OCC Loan Sample

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

FNB's overall distribution of loans to businesses of different sizes and borrowers of different incomes is excellent.

### Lending to Businesses of Different Sizes

FNB's distribution of loans to businesses reflects excellent penetration among businesses of different sizes. The bank's lending to businesses with gross annual revenues of \$1 million or less exceeds the percentage of AA businesses with revenues

less than or equal to \$1 million. The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

<b>Borrower Distribution of Loans to Businesses in the AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74%	2%	24%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: OCC Loan Sample & 2011 Business Geo-demographic Data

### **Lending to Borrowers of Different Incomes**

FNB’s distribution of consumer loans reflects excellent penetration among households of different income levels. The bank is near to the demographics for low-income households but given the household poverty rate of 9.21 percent, performance reflects excellent penetration among low-income borrowers. The bank also has excellent penetration to moderate-income borrowers. The following table shows the distribution of consumer loans among households of different incomes levels.

<b>Borrower Distribution of Consumer Loans in the AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	22%	20%	16%	33%	19%	34%	43%	13%

Source: OCC Loan Sample & 2000 U.S. Census Data

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of lending would not be meaningful as all census tracts in the AA are middle-income.

### **Responses to Complaints**

FNB has not received any CRA-related complaints.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.