



**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**

First National Bank of The Lakes  
Charter Number 15309

2445 Shadywood Road  
Navarre, MN 55392

Office of the Comptroller of the Currency

222 South 9th Street, 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 major factors supporting this rating include:

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans inside their assessment area (AA).
- The distribution of loans is reasonable among borrowers of different income levels.
- The geographic distribution of loans is reasonable among census tracts of different income levels.

**SCOPE OF EXAMINATION**

We assessed First National Bank of the Lakes' (FNB) record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA), from October 1, 2007 through December 31, 2011. We selected primary products based on loan originations from January 1, 2010 through December 31, 2011. The bank's primary products during that period were commercial and consumer loans. Commercial loans received more weight in the analysis since they represented 59.5% by dollar amount of originations. Consumer represented 28.5%. We selected a random sample of 20 loans from each product type for our analysis. We expanded the scope of our review for consumer loans, adding an additional 40 loans to our sample.

**DESCRIPTION OF INSTITUTION**

FNB is a national bank headquartered in Navarre, MN. The bank had \$66.7 million in total assets as of December 31, 2012. The bank is a wholly-owned subsidiary of Orono Financial, a one-bank holding company. FNB has four branches which are located in Navarre, downtown Minneapolis, uptown Minneapolis, and Richfield. FNB has no deposit-taking ATMs and did not open or close any branch locations during this evaluation period.

FNB is a full-service bank and offers several products designed to meet the credit needs of the AA. The bank's strategy focuses on commercial and consumer lending. As of December 31, 2012, the bank's \$25 million loan portfolio consisted of 63% commercial (24%) and commercial real estate (39%) loans, 28% residential real estate loans and 9% consumer loans. Gross loans represented 38% of total assets and 42% of total deposits as of December 31, 2012.

There are no legal, financial, or other factors that affect the bank's ability to help meet the credit needs of their community. At the last CRA examination dated November 26, 2007, FNB received a "Satisfactory" rating.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's AA includes all census tracts (CTs) located in Hennepin County, Minnesota. Hennepin County is located in the Minneapolis – St. Paul Metropolitan Statistical Area (MSA) #33460. There are 298 CTs in the AA. The AA consists of 79 (26.5%) upper-income, 110 (36.9%) middle-income, 71 (23.8%) moderate-income, 37 (12.4%) low-income CTs. In addition, there is one "other" CT (0.4%) which is comprised of the Minneapolis-St. Paul International Airport. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 U.S. Census population of the AA was 1,116,200. The 2010 and 2011 HUD Estimated Median Family Income was \$84,000 and \$82,700, respectively. The AA consists of 18.48% low-income families, 18.44% moderate-income families, 23.72% middle-income families, and 39.36% upper-income families. The 2000 U.S. Census data indicates that 7.44% of households in the AA are below the poverty level. According to the Federal Reserve, the March 2013 unemployment rate for Hennepin County was 4.8%. This was lower than the Minnesota unemployment rate of 5.4% and the national unemployment rate of 7.6%. Major industries include retail sales, manufacturing, health services, professional services, insurance, and financial industries.

Competition from other financial institutions in the AA is strong. There are 77 total financial institutions operating in the bank's AA. According to the June 30, 2012 FDIC deposit market share report, the bank holds 0.06% of the market share ranking 42<sup>nd</sup> out of the 77 financial institutions.

Our community contact indicated that the local economy is growing and expects loan demand to improve. The contact is not familiar with any concerns from local businesses or residents regarding lack of credit availability from any financial institution. The contact also indicated that there are numerous opportunities for financial institutions to join community programs.

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

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

The loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, and lending opportunities within the AA. The quarterly LTD ratio averaged 49.5% in the 20 quarters from fourth quarter 2007 to third quarter 2012. The bank's LTD ratio has experienced a steady downward trend with a decline in local loan demand.

Similarly-situated banks had quarterly average LTD ratios ranging from 35.5% to 92.3% over the same period. Similarly-situated banks have a presence in Hennepin County with total assets ranging from \$50 million to \$100 million as of September 30, 2012. FNB ranks five in average LTD ratio out of the seven similarly-situated banks. These banks have experienced similar declines in the LTD ratio over the same time period. The following table shows the bank’s lending within its AA during the evaluation period:

| <b>LTD for Similarly-Situated Banks in AA</b> |                                     |   |
|---|-------------------------------------|---|
| <b>Institution</b>                            | <b>Assets<br/>(as of 9/30/2012)</b> | <b>Average LTD Ratio;<br/>4Q07 – 3Q12</b> |
| Flagship Bank Minnesota                       | \$93.4MM                            | 92.75%                                    |
| Maple Bank                                    | \$56.4MM                            | 79.89%                                    |
| Bank of Maple Plain                           | \$71.4MM                            | 65.04%                                    |
| Crow River State Bank                         | \$80.2MM                            | 49.76%                                    |
| <b>First National Bank of The Lakes</b>       | <b>\$63.1MM</b>                     | <b>49.54%</b>                             |
| Farmers State Bank of Hamel                   | \$94.7MM                            | 45.85%                                    |
| Union Bank and Trust Company                  | \$75.3MM                            | 35.54%                                    |

Source: FDIC, Call Report

### Lending in Assessment Area

FNB originates a majority of its loans inside the AA. Based on a sample of 20 commercial and 20 consumer loans, FNB originated 72.5% of loans by number within their AA.

| <b>Lending in AA</b> |                        |          |                |          |              |                                 |          |                |          |              |
|----------------------|------------------------|----------|----------------|----------|--------------|---------------------------------|----------|----------------|----------|--------------|
| <b>Loan Type</b>     | <b>Number of Loans</b> |          |                |          |              | <b>Dollars of Loans (000's)</b> |          |                |          |              |
|                      | <b>Inside</b>          |          | <b>Outside</b> |          | <b>Total</b> | <b>Inside</b>                   |          | <b>Outside</b> |          | <b>Total</b> |
|                      | <b>#</b>               | <b>%</b> | <b>#</b>       | <b>%</b> |              | <b>\$</b>                       | <b>%</b> | <b>\$</b>      | <b>%</b> |              |
| <b>Commercial</b>    | 14                     | 70.00%   | 6              | 30.00%   | 20           | 1,463                           | 48.46%   | 1,556          | 51.54%   | 3,019        |
| <b>Consumer</b>      | 15                     | 75.00%   | 5              | 25.00%   | 20           | 260                             | 52.23%   | 238            | 47.77%   | 498          |
| <b>Totals</b>        | 29                     | 72.50%   | 11             | 27.50%   | 40           | 1,723                           | 48.99%   | 1,794          | 51.01%   | 3,517        |

Source: OCC Loan Sample

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

The bank’s overall distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable.

The distribution of commercial loans reflects excellent penetration among businesses of different sizes. The bank exceeds the demographic comparative for lending to businesses of different sizes. The following table shows the distribution of loans to businesses of different sizes:

| <b>Borrower Distribution of Loans to Businesses in AA</b> |              |              |                         |       |
|---|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales)                              | ≤\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total |
| % of AA Businesses  | 65.81%       | 4.26%        | 29.93%                  | 100%  |
| % of Bank Loans in AA by #                                | 70.00%       | 30.00%       | 0.00%                   | 100%  |
| % of Bank Loans in AA by \$                               | 61.73%       | 38.27%       | 0.00%                   | 100%  |

Source: Dun and Bradstreet 2011 and OCC loan sample

The distribution of consumer loans reflects reasonable penetration among borrowers of different income levels. The bank’s lending to low-income borrowers is below the demographic; however, 7.44% of households are below poverty level and may not qualify for credit. Lending to moderate-income borrowers exceeds the demographic. The following table shows the distribution of consumer loans among borrowers of different income levels:

| <b>Borrower Distribution of Consumer Loans in AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower 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   | 23.26%             | 15.00%               | 18.26%             | 25.00%               | 19.91%             | 30.00%               | 38.57%             | 30.00%               |

Source: 2000 Census and OCC loan sample

### Geographic Distribution of Loans

The overall geographic distribution of loans is reasonable among census tracts of different income levels.

The geographic distribution of commercial loans is excellent as lending in low-income tracts exceeds the demographic and lending in moderate-income tracts is very near the demographic. The following table shows the distribution of commercial loans among census tracts of different income levels:

| <b>Geographic Distribution of Loans to Businesses in AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level                                   | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
| Loan Type   | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Commercial  | 6.10%              | 10.00%               | 15.76%             | 15.00%               | 41.27%             | 50.00%               | 35.58%             | 25.00%               |

Source: Dun and Bradstreet 2011 and OCC loan sample

The geographic distribution of consumer loans reflects poor dispersion among low- and moderate-income borrowers. Low- and moderate-income tracts in the bank's AA are centered around the bank's downtown Minneapolis branch location. Given the number of financial institutions in this area, the bank faces strong competition in lending opportunities within these tracts. However, the downtown branch primarily services deposit accounts for customers that work in the building. Branch personnel do not routinely originate loans nor does FNB actively market any loan products at this location. The branch was responsible for only nine of the 240 total loans originated during 2010 and 2011. The following table shows the distribution of consumer loans among census tracts of different income levels:

| Geographic Distribution of Consumer Loans in AA |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 Loans                                  | 8.12%              | 3.33%                | 22.67%             | 10.00%               | 39.75%             | 60.00%               | 29.46%             | 26.67%               |

Source: 2000 Census and OCC loan sample

**Responses to Complaints**

There were no CRA related customer complaints received during the review period.

**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, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area 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.