



## **PUBLIC DISCLOSURE**

March 19, 2018

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

The First National Bank of Proctor  
Charter Number 11125

211 Second Street  
Proctor, MN 55810

Office of the Comptroller of the Currency

Campbell Mithun Tower  
222 South Ninth Street  
Suite 800  
Minneapolis, MN 55402-3393

**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, and should not 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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**Overall CRA Rating: This institution is rated Satisfactory.**

The primary factors supporting the rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size and the credit needs of the assessment area.
- The bank originates a substantial majority of loans within the assessment area.
- The distribution of consumer loans to households of different income levels reflects reasonable penetration within the bank's assessment area.
- The distribution of consumer loans to geographies of different income levels reflects reasonable dispersion within the bank's assessment area given the single branch location, income level of the census tracts surrounding the bank location, and the number of competing institutions within the local area.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## **Description of Institution**

The First National Bank of Proctor (FNB Proctor) is a single-state, national bank headquartered in Proctor, MN. The bank has one branch location in Proctor, MN, a city located adjacent to Duluth, MN. The bank does not own or operate any automated teller machines that accept deposits. The bank did not open or close any branches since the prior CRA examination in January 2013. The bank has one assessment area (AA), which is a portion of the Duluth MN-WI Metropolitan Statistical Area (MSA). Refer to Appendix B for a description of the AA.

FNB Proctor is a full-service bank that offers a variety of traditional loan products and deposit products to meet the financial needs of the community. FNB Proctor's primary business strategy is consumer and real estate lending including commercial and residential loans. As of December 31, 2017, FNB Proctor reported \$23 million in total assets. The bank's loan portfolio totaled \$13 million and consisted of residential real estate loans (67 percent), commercial real estate loans (21 percent), individual loans (9 percent), and commercial loans (3 percent). Total loans and leases represented 56 percent of average assets. Tier 1 capital totaled \$2.4 million.

Competition in the bank's AA is high. Competing banks range in size from community banks to large banks. Major competitors within the AA include Wells Fargo Bank, U.S. Bank, Republic Bank, Inc., and Proctor Federal Credit Union. The Federal Deposit Insurance Corporation (FDIC) Deposit Market Share report showed 25 financial institutions in the AA holding \$3.7 billion in deposits as of June 30, 2017. FNB Proctor ranked 23<sup>rd</sup> in the AA with \$20.9 million in deposits, representing a 0.56 percent market share. The two largest financial institutions in the area, Wells Fargo Bank and U.S. Bank, had 47 percent of the deposit market share.

We did not identify any financial, legal, or other factors that would impede FNB Proctor's ability to meet its CRA obligations and serve the credit needs of its AA. FNB Proctor received a "Satisfactory" rating on its last CRA examination dated January 28, 2013.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

FNB Proctor's CRA performance was evaluated under the small bank procedures, which is limited to the lending test. The evaluation period was from January 29, 2013 to March 19, 2018. The lending test evaluated the bank's record of meeting the credit needs of its AA through its lending activities. The lending test focused on the bank's primary loan product, which was determined based on loan origination and purchase volume from January 1, 2016 to December 31, 2017. We determined consumer loans to be the bank's primary loan product in both 2016 and 2017. Consumer loans represented 68 percent of originations by volume and 22 percent by dollar in 2016, and 84 percent of originations by volume and 29 percent by dollar in 2017.

## **Data Integrity**

To evaluate the bank's performance, we selected a sample of the primary product loans. This initially included a random selection of 20 consumer loans from each year – 2016 and 2017. In order to have sufficient information to analyze, we expanded the consumer loan sample from 20 to 41 loans for the 2016 borrower distribution lending test. We also expanded the consumer loan sample from 20 to 44 loans and 20 to 55 loans for the 2016 and 2017 geographic distribution lending tests, respectively. These samples included all consumer loans originated in each year. The difference between the 2016 borrower and geographic distribution test samples stems from a lack of income information on three loans secured by certificates of deposit.

## **Selection of Areas for Full-Scope Review**

The bank has one AA that includes the southern portion of Duluth MN-WI MSA (not including Douglas County). This AA is referred to as the Duluth MSA AA throughout this report. The Duluth MSA AA received a full-scope review. Refer to Appendix A for more details about the examination scope and Appendix B for a full description of the AA and the community profile.

## **Ratings**

The bank's overall rating is based on the performance within the Duluth MSA AA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, 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. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

## Conclusions with Respect to Performance Tests

### LENDING TEST

FNB Proctor's performance under the lending test is satisfactory. Overall, the bank's lending activity reflects satisfactory responsiveness to AA credit needs for consumer loans when considering performance context.

We evaluated FNB Proctor's lending performance on five performance criteria: the net LTD ratio; lending in the AA; lending to borrowers of different incomes; the geographic distribution of loans; and responses to CRA related complaints.

#### Loan-to-Deposit Ratio

FNB Proctor's net LTD is reasonable given the bank's size, financial condition, and competition and credit needs within the AA. The bank's quarterly LTD ratio averaged 63.31 percent over the past 21 quarters since the previous CRA examination. The LTD ranged from a high of 74.96 percent in the second quarter of 2015 to a low of 55.47 percent in first quarter 2013. The bank's LTD ranks fifth among six similarly situated banks. Similarly situated banks are defined as banks with total assets ranging between \$23 million and \$98 million that have a market presence within St. Louis and/or Carlton counties. Lack of loan demand and significant competition within the local market contributed to the lower LTD ratio. The following table illustrates FNB Proctor's average LTD ratio in comparison to similarly situated banks:

Similarly Situated Banks	Total Assets - \$000s (as of 12/312017)	Average LTD Ratio (4Q12-4Q17)
The Pioneer National Bank of Duluth	\$82,791	86.33%
The First National Bank of Moose Lake	\$97,830	86.29%
Park State Bank	\$61,407	84.31%
The First National Bank of Buhl	\$26,298	84.04%
<b>The First National Bank of Proctor</b>	<b>\$23,104</b>	<b>63.31%</b>
The First National bank of Gilbert	\$36,701	52.74%

Source: Call Report Data.

#### Lending in Assessment Area

FNB Proctor originates a substantial majority of its loans inside its AA. Of the 40 sampled consumer loans, FNB Proctor originated 93 percent of the loans by number and 88 percent of the loans by dollar within its AA. The table on the following page illustrates FNB Proctor's lending inside and outside the AA:

<b>Lending in Duluth MSA AA 2016 and 2017</b>										
	Number of Loans					Dollars of Loans				
Loan Type	Inside		Outside		Total	Inside		Outside		Total (\$000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Consumer Loans	37	93%	3	7%	40	\$543	88%	\$75	12%	\$618

Source: OCC Loan Sample.

## Lending to Borrowers of Different Incomes

FNB Proctor's overall distribution of loans to borrowers of different income levels reflects reasonable penetration when considering performance context. Based on our sample of 41 consumer loans originated in 2016, the bank's lending to moderate-income borrowers exceeded the percentage of moderate-income households in the AA, but the bank's lending to low-income borrowers was slightly below the percentage of low-income households. While FNB Proctor did not meet the demographic comparator for low-income households, the bank's lending performance for low-income borrowers is considered reasonable given the elevated poverty levels in the AA. Based on the 2010 U.S. Census data, approximately 14 percent of the households in the AA were in poverty. This high poverty level negatively impacts a household's ability to qualify for financing. Based on our sample of 20 loans originated in 2017, the bank's lending to low- and moderate-income borrowers exceeded the percentage of low- and moderate-income households in the AA. The following tables display the bank's lending activity to household income levels compared to the demographic comparators in the AA:

<b>Borrower Distribution of Consumer Loans in Duluth MSA AA 2016</b>								
	Low		Moderate		Middle		Upper	
Borrower Income Level	% 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	23%	17%	15%	22%	17%	37%	45%	24%

Source: Loan Sample, 2010 US Census Data.

<b>Borrower Distribution of Consumer Loans in Duluth MSA AA 2017</b>								
	Low		Moderate		Middle		Upper	
Borrower Income Level	% 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	24%	45%	15%	20%	17%	20%	44%	15%

Source: Loan Sample, 2015 ACS US Census Data.

## Geographic Distribution of Loans

FNB Proctor's overall distribution of loans reflects reasonable dispersion across geographies of different income levels when considering performance context. The consumer loan samples for both years showed no or limited dispersion within low- to moderate-income geographies. However, this primarily stems from the fact that FNB Proctor's only branch location and its immediate surrounding areas are located in middle-income tracts. Additionally, the majority of the low- to moderate-income tracts are located in and around the city of Duluth where the market is saturated with competition. The lack of a physical presence, along with steep competition, impedes FNB Proctor's lending opportunities within the low- to moderate-income tracts.

Based on our sample of 44 consumer loans originated in 2016, the distribution of consumer loans to geographies of different income levels reflects no dispersion within low- and moderate- income geographies in the AA. Based on our sample of 50 consumer loans originated in 2017, the distribution of consumer loans reflects poor dispersion within low- and moderate-income geographies in the AA. The following tables display the bank's lending activity to the demographic comparators in the AA:

Geographic Distribution of Consumer Loans in Duluth MSA AA 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	13%	0%	8%	0%	50%	70%	29%	30%

Source: Loan Sample, 2010 US Census Data.

Geographic Distribution of Consumer Loans in Duluth MSA AA 2017								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	9%	4%	8%	2%	48%	36%	35%	58%

Source: Loan Sample, 2015 ACS US Census Data.

## Responses to Complaints

FNB Proctor did not receive any CRA related complaints during the CRA evaluation period.

# Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): <ul style="list-style-type: none"> <li>LTD (10/1/2012 – 12/31/2017)</li> <li>Lending in the Assessment Area, Borrower Distribution, and Geographic Distribution Tests (1/1/2016 - 12/31/2017)</li> <li>Complaints (1/29/2013 – 3/19/2018)</li> </ul>	
<b>- Financial Institution</b>		<b>Products Reviewed</b>
First National Bank of Proctor (FNB Proctor) Proctor, MN		Consumer Loans
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
N/A		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Duluth MSA (modified Duluth MN-WI MSA)	Full-Scope	FNB Proctor’s AA consists of a portion of the Duluth MN-WI MSA (#20260). The AA consists of 40 contiguous census tracts in the southern third of St. Louis County and all seven census tracts in Carlton County. The income characteristics of the AA’s census tracts changed between the 2010 US Census Data and 2015 ACS US Census Data. In 2016, the AA consisted of 14 upper-income tracts, 18 middle-income tracts, 7 moderate-income tracts, and 8 low-income tracts. In 2017, the AA consisted of 14 upper-income tracts, 21 middle-income tracts, 6 moderate-income tracts and 6 low-income tracts. We included tables for both 2016 and 2017 in our lending test due to the income characteristic changes in the census tracts within the AA.

## Appendix B: Community Profiles for Full-Scope Areas

### Duluth, MN-WI MSA (modified) - 2016

Demographic Information for Full-Scope Area: Duluth, MN-WI MSA (modified) 2016							
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #	
Geographies (Census Tracts/BNAs)	47	17.02%	14.89%	38.30%	29.79%	0	
Population by Geography	160,241	10.27%	7.99%	49.02%	32.73%	0	
Owner-Occupied Housing by Geography	46,050	4.87%	5.75%	55.78%	33.60%	0	
Businesses by Geography	10,399	20.41%	4.72%	46.96%	27.92%	0	
Farms by Geography	287	5.58%	4.18%	57.84%	32.40%	0	
Family Distribution by Income Level	39,698	18.55%	16.31%	22.91%	42.24%	0	
Distribution of Low- and Moderate-Income Families throughout AA Geographies	13,837	15.70%	11.80%	52.66%	19.83%	0	
Median Family Income	\$64,023						
FFIEC Updated Median Family Income for 2016	\$62,700	Median Housing Value				\$161,989	
Households Below the Poverty Level	14.20%	2016 Annual Unemployment Rate St. Louis/Carlton County				5.6%/5.7%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2010 U.S. Census, and 2016 FFIEC updated MFI, U.S. Bureau of Labor Statistics 2016 unemployment data

### Duluth, MN-WI MSA (modified) - 2017

Demographic Information for Full-Scope Area: Duluth, MN-WI MSA (modified) 2017						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	47	12.77%	12.77%	44.68%	29.79%	0
Population by Geography	160,907	7.49%	7.06%	47.79%	37.66%	0
Owner-Occupied Housing by Geography	44,646	2.83%	4.82%	51.65%	40.68%	0
Businesses by Geography	10,429	9.24%	13.60%	44.45%	32.71%	0
Farms by Geography	287	3.14%	4.88%	48.08%	43.90%	0

Family Distribution by Income Level	38,402	17.87%	15.84%	23.28%	43.01%	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	12,946	11.86%	10.10%	53.25%	24.79%	0
Median Family Income	\$70,728	Median Housing Value		\$168,660		
FFIEC Updated Median Family Income for 2017	\$67,200	2017 Annual Unemployment Rate (through November 2017) St. Louis/Carlton County		3.7%/3.9%		
Households Below the Poverty Level	15.12%					

(\*) The NA category consists of geographies that have not been assigned an income classification. Source: 2015 ACS U.S. Census, and 2017 FFIEC updated MFI, U.S. Bureau of Labor Statistics 2017 unemployment data

The First National Bank of Proctor (FNB Proctor) is a single-state, national bank headquartered in Proctor, MN. The bank has one branch location in Proctor, MN, a city located adjacent to Duluth, MN. The bank does not own or operate any automated teller machines that accept deposits. FNB Proctor’s primary business strategy is consumer and real estate lending including commercial and residential loans.

The bank has one assessment area (AA), which consists of the southern and western portion of the Duluth MN-WI Metropolitan Statistical Area (MSA). The entire Duluth MN-WI MSA was not included in the AA due to the geographical size of the Duluth MN-WI MSA compared to the size of FNB Proctor and sole branch location in Proctor, MN. The AA is reasonable, meets regulatory requirements, and does not arbitrarily exclude any low- or moderate-income census tracts. The AA consists of 40 contiguous census tracts in the southern third of St. Louis County and all seven census tracts in Carlton County. The income characteristics of the AA’s census tracts changed between 2010 US Census Data and 2015 ACS US Census Data. In 2016, the AA consisted of 14 upper-income tracts, 18 middle-income tracts, seven moderate-income tracts and eight low-income tracts. In 2017, the AA consisted of 14 upper-income tracts, 21 middle-income tracts, six moderate-income tracts and six low-income tracts. We included tables for both 2016 and 2017 in our lending tests due to the changes in census data between the two years.

The Duluth MN-WI MSA is diverse and not dependent on any one major industry. The largest employers in the area include Essentia Health, St. Luke’s Hospital, Miner’s, Inc., and the University of Minnesota-Duluth. Mining and construction are responsible for about one-third of all new job growth over the past 12 months. Per the Moody’s analytics report for the Duluth MN-WI MSA, some of the strengths of the MSA include the large healthcare industry, low business and living costs, and the investment at Port of Duluth-Superior, while some of the weaknesses include exposure to volatile mining industry, weak commercial construction, and very low economic vitality. According to the Bureau of Labor Statistics, the annual unemployment rate in 2016 and 2017 (thorough November 2017) for St. Louis County was 5.6 percent and 3.7 percent, while the unemployment rate for Carlton County was 5.7 percent and 3.9 percent. This was above the State of Minnesota unemployment rate of 3.9 percent and 3.5 percent.

Competition among financial institutions in the Duluth MN-WI MSA is high with 25 financial institutions holding \$3.7 billion in deposits as of June 30, 2017. Per the FDIC Deposit Market Share report, FNB Proctor ranked 23<sup>rd</sup> in the AA with \$20.9 million in deposits, representing a 0.56 percent market share. The two largest financial institutions in the area, Wells Fargo Bank, and U.S. Bank, have 47 percent of the deposit market share.

We contacted members of two local community organizations to gain an understanding of the credit needs of the area and the involvement of the local financial institutions in meeting those needs. The contacts said there are opportunities for local financial institutions to be involved in community projects and/or developments throughout the Duluth area. However, at this time, there are no community development projects being completed in the Proctor area given the low loan demand and the amount of available development space. Additionally, the two major barriers in the AA are the lack of single-family housing/rental properties and qualified borrowers coupled with a high level of competition. The community contacts stated that the local financial institutions were meeting the credit needs of the community. The local banks remain involved in the community and are more than willing to participate as opportunities present themselves.