



## **PUBLIC DISCLOSURE**

February 06, 2017

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

The Pioneer National Bank of Duluth  
Charter Number 13078

331 North Central Avenue  
Duluth, MN 55807

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, 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 the institutions rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and the credit needs of the assessment area (AA).
- The bank originates a majority of its loans inside its AA.
- The overall distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.

**SCOPE OF EXAMINATION**

We evaluated The Pioneer National Bank of Duluth’s (PNB) Community Reinvestment Act (CRA) performance using small bank procedures. The bank’s CRA performance was assessed under the lending test and focused on the bank’s primary loan products based on loan originations and purchases from January 1, 2014 to December 31, 2015 (evaluation period). We determined commercial and residential real estate refinance (RRE-refinance) to be the bank’s primary products. The following table details PNB’s loan originations and purchases for 2014 and 2015.

| <b>Loan Originations and Purchases in 2014 and 2015</b> |                    |                     |
|---|--------------------|---------------------|
| <i>Loan Type</i>  | <i>Volume by #</i> | <i>Volume by \$</i> |
| <b>Commercial</b>                                       | <b>50.7%</b>       | <b>68.6%</b>        |
| Residential Real Estate                                 | 22.3%              | 27.0%               |
| <b>Refinance</b>  | <b>10.0%</b>       | <b>17.3%</b>        |
| Purchase  | 8.1%               | 8.6%                |
| Home Improvement  | 4.3%               | 1.1%                |
| Consumer  | 27.0%              | 4.4%                |
| Agriculture Loans                                       | 0.0%               | 0.0%                |

*Source: Bank loan origination report for 2014 and 2015*

To evaluate PNB’s lending performance, examiners sampled 20 commercial loans originated during the evaluation period. Additional loans were selected to have sufficient information to analyze borrower and geographic distribution within the AA. We used loans reported under the Home Mortgage Disclosure Act (HMDA) to analyze lending performance for RRE-refinance loans. We previously tested the collected HMDA data and found the information to be reliable. As a result, the data was used in this evaluation.

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation to find similarly situated banks. The most recent deposit information is as of June 30, 2016.

## **DESCRIPTION OF INSTITUTION**

PNB is an \$81 million bank serving the Duluth MN-WI multi-state metropolitan statistical area (MSA). The bank serves Douglas County in WI and portions of St. Louis and Carlton County in MN. PNB is wholly owned by Pioneer Bank Shares, Inc. which is a one-bank holding company. The bank operates three full service branches located within the city limits of Duluth. There have been no branch openings or closings since the last CRA examination. Each branch offers ATM access, none of which are deposit taking.

PNB is a full-service financial institution offering traditional loan and deposit products and services to commercial and consumer customers. PNB's business strategy over the evaluation period was to grow its commercial loan portfolio. As of December 31, 2016, the bank's loan portfolio totaled \$58.6 million, representing 73 percent of total assets. Tier one capital was \$8.7 million and the tier one leverage ratio was 10.79 percent. The loan portfolio consists of 66 percent commercial, 25 percent residential real estate, and 9 percent consumer and other loan types.

There are no legal, financial, or other factors preventing the bank from meeting the credit needs of its community. PNB received a "Satisfactory" rating on its last CRA examination dated May 31, 2011.

## **DESCRIPTION OF ASSESSMENT AREA**

PNB's AA consists of 56 contiguous census tracts located within the Duluth MN-WI MSA. The AA includes the census tracts where the bank's branches are located and the surrounding census tracts the bank can reasonably serve. The AA includes nine census tracts designated as low-income, ten census tracts designated as moderate-income, 23 census tracts designated as middle-income, and 14 census tracts designated as upper-income. No census tracts are designated as distressed or underserved by the Federal Financial Institutions Examination Council. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

According to the U.S. Bureau of Labor Statistics, the unemployment rate in 2016 for St. Louis, Carlton, and Douglas counties was 5.6 percent, 5.8 percent, and 4.2 percent respectively. The unemployment rates of these counties were higher than the Minnesota unemployment rate of 3.9 percent and similar to the national unemployment rate of 4.9 percent. Major employers in the AA include: Essentia Health, University of Minnesota-Duluth, St. Luke's Hospital, Allete Inc., and MN Taconite.

Competition from other financial institutions is high. PNB ranks 12<sup>th</sup> in deposit share among 30 financial institutions with a presence in the Duluth MN-WI MSA. The bank has roughly \$69 million in deposits, representing 1.64 percent deposit market share. Two large financial institutions dominate the market with 41.46 percent deposit market share.

We contacted one community leader within the AA as part of this evaluation. The community contact indicated a need for small business lending in the AA. The contact stated that local financial institutions have done a good job of meeting local credit needs and providing services to low- and moderate-income individuals.

The following table depicts the demographic and economic characteristics of the Duluth MN-WI MSA.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE PNB AA |           |
|--|-----------|
| Population   |           |
| Number of Families                                     | 48,468    |
| Number of Households                                   | 79,348    |
| % of Low-Income Families                               | 18.7%     |
| % of Moderate-Income Families                          | 17.2%     |
| % of Middle-Income Families                            | 22.6%     |
| % of Upper-Income Families                             | 41.49%    |
| Geographies  |           |
| Number of Census Tracts                                | 56        |
| % Low-Income Census Tracts                             | 16.1%     |
| % Moderate-Income Census Tracts                        | 17.9%     |
| % Middle-Income Census Tracts                          | 41.1%     |
| % Upper-Income Census Tracts                           | 25.0%     |
| <i>Median Family Income (MFI)</i>                      |           |
| Medium Family Income                                   |           |
| 2010 MFI for AA  | \$63,017  |
| 2013 HUD-Adjusted MFI                                  | \$63,500  |
| Economic Indicators                                    |           |
| 2013 Unemployment Rate                                 | 4.5%      |
| 2010 Median Housing Value                              | \$154,584 |
| % of Households Below Poverty Level                    | 14.1%     |

*Source: 2010 U.S. Census data with updated information when available*

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

PNB's net LTD ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. The bank's LTD ratio averaged 89.70 percent over the past 22 quarters since the last CRA examination. The ratio ranged from a quarterly low of 80.44 percent in March 2016 to a quarterly high of 99.85 percent in June 2012. PNB's average quarterly LTD ratio ranks highest among other similarly situated banks, which

are defined as those banks located in the AA with total assets between \$60 million and \$120 million.

| Loan-to-Deposit Ratios                     |                        |  |
|--|------------------------|--|
| Institution                                | Assets (as of 9/30/16) | Average Loan-to-Deposit Ratio (3Q2016- 2Q2011) |
| <b>The Pioneer National Bank of Duluth</b> | <b>\$81 million</b>    | <b>89.70%</b>                                  |
| The First National Bank of Moose Lake      | \$89 million           | 85.28%   |
| Superior Savings Bank                      | \$65 million           | 83.42%   |
| Northern State Bank of Virginia            | \$62 million           | 75.55%   |
| Western National Bank                      | \$119 million          | 70.47%   |
| The Miners National Bank of Eveleth        | \$65 million           | 37.85%   |
| First National Bank                        | \$83 million           | 23.36%   |

Source: Call Report Data

### Lending in Assessment Area

PNB originates a majority of its loans inside its AA. A random sample of 20 business loans and all RRE-Refinance HMDA loans were analyzed to determine the bank's lending in its AA. The following table illustrates the number and dollar amount of loans originated inside and outside the bank's AA during the evaluation period.

| Lending in PNB's AA |                 |       |         |       |       |                  |       |         |       |               |
|---------------------|-----------------|-------|---------|-------|-------|------------------|-------|---------|-------|---------------|
| Loan Type           | Number of Loans |       |         |       |       | Dollars of Loans |       |         |       |               |
|                     | Inside          |       | Outside |       | Total | Inside           |       | Outside |       | Total \$(000) |
|                     | #               | %     | #       | %     |       | \$(000)          | %     | \$(000) | %     |               |
| Business Loans      | 15              | 75.00 | 5       | 25.00 | 20    | 2,154            | 62.34 | 1,301   | 37.66 | 3,455         |
| RRE-Refinance       | 18              | 85.71 | 3       | 14.29 | 21    | 2,950            | 62.39 | 1,778   | 37.61 | 4,728         |
| Totals              | 33              | 80.49 | 8       | 19.51 | 41    | 5,104            | 62.37 | 3,079   | 37.63 | 8,183         |

Source: OCC Loan Sample & HMDA Data

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

The distribution of loans to borrowers of different income levels and to businesses of different sizes reflects reasonable penetration.

#### RRE-Refinance Loans

The borrower distribution of RRE-refinance loans reflects reasonable penetration. The bank's performance in lending to low-income borrowers is below the demographic comparator; however, the area has a 14 percent poverty rate, which can inhibit these individuals from achieving home ownership. Lending to moderate-income borrowers is near the demographic comparator. The following table compares PNB's RRE-refinance activity to the demographics within the AA.

| <b>Borrower Distribution of RRE-Refinance Loans in PNB's AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level   | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      |
| Loan Type   | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| RRE-Refinance   | 18.73            | 7.14                 | 17.20            | 14.29                | 22.58            | 7.14                 | 41.49            | 71.43                |

Source: OCC Loan Sample & HMDA Data

### Business Loans

PNB's distribution of loans reflects reasonable penetration among business of different sizes. The bank's performance in lending to businesses with annual revenues of less than \$1 million is near to the demographics by number of loans. The following table compares PNB's commercial lending activity to the demographics of the AA.

| <b>Borrower Distribution of Loans to Businesses in PNB's AA</b> |              |              |                     |        |
|---|--------------|--------------|---------------------|--------|
| Business Revenues (or Sales)                                    | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total  |
| % of AA Businesses  | 77.43        | 5.51         | 17.06               | 100.00 |
| % of Bank Loans in AA by #                                      | 65.00        | 35.00        | 0.00                | 100.00 |
| % of Bank Loans in AA by \$                                     | 35.92        | 64.18        | 0.00                | 100.00 |

Source: OCC Loan Sample; 2015 Dunn and Bradstreet Data

### **Geographic Distribution of Loans**

PNB's geographic distribution of loans reflects excellent dispersion throughout the AA. Examiners placed the most weight on the distribution of commercial loans as they represented 51 percent of lending by number and 69 percent of lending by dollar volume during the evaluation period.

### RRE- Refinance Loans

The geographic distribution of RRE-refinance loans reflects reasonable dispersion. The bank exceeds the demographic comparator in low-income census tracts, but did not originate any loans in the moderate-income census tracts. The following table outlines the geographic distribution of RRE-refinance loans throughout census tracts of different income levels in the bank's AA.

| Geographic Distribution of RRE-Refinance Loans in PNB's AA |                             |                      |                             |                      |                             |                      |                             |                      |
|--|-----------------------------|----------------------|-----------------------------|----------------------|-----------------------------|----------------------|-----------------------------|----------------------|
| Census Tract Income Level                                  | Low                         |                      | Moderate                    |                      | Middle                      |                      | Upper                       |                      |
| Loan Type  | % of Owner-Occupied Housing | % of Number of Loans | % of Owner-Occupied Housing | % of Number of Loans | % of Owner-Occupied Housing | % of Number of Loans | % of Owner-Occupied Housing | % of Number of Loans |
| RRE-Refinance  | 4.60                        | 16.67                | 8.51                        | 0.00                 | 58.96                       | 38.89                | 27.92                       | 44.44                |

Source: HMDA data; 2010 US Census Data

**Business Loans**

The geographic distribution of commercial loans reflects excellent dispersion. PNB exceeded demographic comparators in the low- and moderate-income census tracts. The table below illustrates the bank's performance compared to the demographics.

| Geographic Distribution of Loans to Businesses in PNB's AA |       |          |        |       |
|--|-------|----------|--------|-------|
| Census Tract Income Level                                  | Low   | Moderate | Middle | Upper |
| % of AA Business   | 19.97 | 7.00     | 48.47  | 24.55 |
| % of Number of Bank Loans                                  | 25.00 | 20.00    | 50.00  | 5.00  |

Source: OCC Loan Sample; Dunn and Bradstreet data

**Responses to Complaints**

PNB has not received any CRA-related complaints since its last CRA evaluation dated May 31, 2011.

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

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) 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.