



PUBLIC DISCLOSURE

January 17, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
7647

101 West Lake Street
Chisholm, MN 55719

Office of the Comptroller of the Currency
222 South Ninth 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, 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.

Table of Contents

Overall CRA Rating.....	1
Description of Institution.....	2
Scope of the Evaluation.....	2
Discriminatory or Other Illegal Credit Practices Review.....	4
State Rating.....	5
State of Minnesota.....	5
Appendix A: Scope of Examination.....	A-1
Appendix B: Summary of State Ratings.....	B-1
Appendix C: Definitions and Common Abbreviations.....	C-1
Appendix D: Tables of Performance Data.....	D-1

Overall CRA Rating

Institution's CRA Rating: This institution is rated **Needs to Improve**.

The lending test is rated: Needs to Improve.

The major factors that support this rating include:

- The bank originated a substantial majority of consumer loans outside its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio is less than reasonable.
- The distribution of consumer loans to borrowers of different income levels and geographies of different income levels is reasonable.
- The bank did not receive any complaints related to CRA.

Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA, the bank's loan-to-deposit ratio is less than reasonable.

The bank's quarterly LTD ratio averaged 35.4 percent over the 16 quarters since the previous CRA evaluation. The bank's quarterly LTD ratio ranged from a low of 21.3 percent in the second quarter of 2019 to a high of 60.8 percent in the fourth quarter of 2021. The bank has experienced low local loan demand. As a result, the Board implemented a strategy to purchase out of market loan pools beginning in the fourth quarter of 2019. This strategic initiative has effectively increased the LTD ratio year over year. The bank's average LTD ratio during 2021 improved to 53.6 percent. Over the evaluation period, the bank ranked last out of five similarly situated institutions, with the lowest average LTD ratio. Similarly situated institutions operate in the bank's AA with total assets between \$69 million and \$179 million.

Although the LTD is less than reasonable, the bank still engaged in lending that was responsive to community needs. During the COVID-19 pandemic, the bank supported local businesses by originating 40 Small Business Administration (SBA) Payroll Protection Program (PPP) loans totaling \$2.2 million.

The following table shows the bank's LTD ratio compared to similarly situated institutions:

Institution (Headquarters)	Total Assets (\$000s)	Average LTD Ratio (%)
The First National Bank of Gilbert (Gilbert, MN)	\$69,307	80.3
Northern State Bank of Virginia (Virginia, MN)	\$90,779	74.7
The Miners National Bank of Eveleth (Eveleth, MN)	\$91,425	53.8
Security State Bank of Hibbing (Hibbing, MN)	\$178,793	52.5
First National Bank (Chisholm, MN)	\$90,532	35.4

Source: Call Report data from March 31, 2018, to December 31, 2021

Lending in Assessment Area

A substantial majority of the bank's loans are outside its AA.

The bank originated or purchased a substantial majority of consumer loans outside its AA. The bank originated or purchased 30.0 percent by number and 10.2 percent by dollar amount during the evaluation period inside their AA. As noted above in the LTD section, the bank has had minimal local loan demand and began purchasing out of market loan pools, including consumer loans pools beginning in the fourth quarter of 2019, with subsequent loan pool purchases throughout the evaluation period. To evaluate the bank's lending inside and outside its AA, we selected a sample of 20 consumer loans originated or purchased during the evaluation period. Consumer loans are the primary product in the bank's single AA. Refer to the table below to view lending inside and outside the bank's AA.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Consumer	6	30.0	14	70.0	100	63,351	10.2	558,039	89.8	621,390
<i>Source: Bank Data</i>										

Description of Institution

First National Bank (FNB) is a \$91 million single-state institution headquartered in Chisholm, Minnesota. FNB is a wholly owned subsidiary of M.I.F. Limited, a single bank holding company, which is located in Chisholm, Minnesota. The bank has three locations, including a full-service main office and standalone drive-up facility in Chisholm, MN and a full-service branch in Cook, MN. FNB did not have any merger or acquisition activity during the evaluation period. The bank does not operate any affiliates or subsidiaries. The bank has one AA, referred to as the St. Louis County, MN AA, which includes northwestern St Louis County.

FNB has one AA partially comprised of St. Louis County, which is one of three counties within the Metropolitan Statistical Area (MSA) 20260 Duluth, MN-WI. The bank provides traditional banking services, including a variety of loan and deposit products. FNB does not have a specific strategic lending focus and is primarily a consumer and residential real estate (RRE) lender. Beginning in the second half of 2019, management began purchasing large, out-of-market loan pools in an effort to increase earnings given soft local loan demand. These pool purchases consisted of consumer, automobile, and investor-owned RRE properties, with the underlying collateral in various geographic footprints throughout the country. As of December 31, 2021, net loans totaled \$50.2 million and represented approximately 55 percent of total assets. The loan portfolio, based on outstanding dollar volume, was comprised of 41 percent consumer loans, 46 percent home mortgage loans, and 13 percent business loans. There were no agricultural loans on the balance sheet as of December 31, 2021. Tier one capital totaled \$7.4 million as of December 31, 2021.

FNB received a Satisfactory rating at the prior CRA evaluation dated January 29, 2018. There are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs in its AA.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated FNBs CRA performance using small bank performance standards. The time period for the LTD ratio analysis was March 31, 2018, through December 31, 2021. The complaint analysis period was January 1, 2018, through January 17, 2023. The evaluation period for the remaining portion of the Lending Test covered January 1, 2019, through December 31, 2021.

We analyzed the bank's loan originations and purchases from January 1, 2019, through December 31, 2021, to determine the primary loan product for the St. Louis County, MN AA. We determined consumer loans were the primary product, representing the largest portion of lending and purchase activity by both dollar volume and number of loans during the evaluation period. To complete our analysis, we reviewed a sample of 20 consumer loans inside the St. Louis County, MN AA.

The table below reflects total loan purchases and originations by dollar and number during the evaluation period.

Loan Originations and Purchases 2019-2021				
Loan Type	Number of Loans		Dollar of Loans	
	#	%	\$ (000s)	%
Farm	198	13.9	2,134	3.6
Business	52	3.7	10,266	17.1
Consumer	902	63.5	25,646	42.9
Home	268	18.9	21,812	36.4
Total	1,420	100.0	59,858	100.0

We reviewed the AA's financial, economic, and environmental factors to determine the bank's lending performance. We also contacted three community members with knowledge of the area's economic conditions and demographics to gather additional insight on lending needs in the AA.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, one or more of AAs within that state was selected for a full-scope review. For purposes of this evaluation, bank delineated assessment areas located within the same metropolitan statistical area (MSA) are combined and evaluated as a single AA. Refer to the "Scope" section under each State Rating for details regarding how full-scope AAs were selected. Refer to appendix A, Scope of Examination, for a list of full-scope AAs.

Ratings

The bank's overall rating is based entirely on the lending performance in the state of Minnesota.

The state rating is based on performance in the bank AA. Refer to the "Scope" section under each State Rating section for details regarding how the area was weighted in arriving at the respective ratings.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) 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 AA 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.

State Rating

State of Minnesota

CRA rating for the State of Minnesota: Needs to Improve

The Lending Test is rated: Needs to Improve

The major factors that support this rating include:

- The bank originated a substantial majority of consumer loans outside its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio is less than reasonable.
- The distribution of consumer loans to borrowers of different income levels and geographies of different income levels is reasonable.
- The bank did not receive any complaints related to CRA.

Description of Institution's Operations in Minnesota

The bank has one AA in the state of Minnesota. The St. Louis County, MN AA consists of 21 census tracts (CTs) in northwestern St Louis County. Of the twenty-one CTs, seven are moderate income and 14 are middle income. There are no low income CTs in the AA. FNB operates two full-service branches in the AA, located in Chisholm and Cook, MN. They also operate a limited service detached drive-up in Chisholm, MN. There are no deposit-taking ATMs.

Competition within the AA is strong. According to the FDIC Deposit Market Share Report, as of June 30, 2022, there are 20 financial institutions operating within the St. Louis County, MN AA with deposits totaling \$4.6 billion. Of those 20 banks, FNB ranks 12th with market share at 1.7 percent of total deposits. The institutions in the top five were Wells Fargo Bank, US Bank, Park State Bank, National Bank of Commerce, and North Shore Bank of Commerce. These five banks combined accounted for 75.6 percent of deposits in the AA.

The St. Louis County, MN AA's economy is largely dependent on the mining industry. Historically, mining has provided the highest paying employment for the region. Our community contact stated that the mining industry had grown steadily prior to the COVID-19 pandemic, but the region did see high unemployment and slowed operations during the beginning of the pandemic in Spring 2020. This is reflected in unemployment data for St Louis County for the years 2019-2021. The preliminary unemployment rate in St Louis County was 3.8 percent in 2021, 7.4 percent in 2020 and 4.25 percent in 2019. Other major industries within the iron range include Healthcare & Social Assistance, Retail Trade, and Manufacturing. The contact stated there have been no changes in local businesses since 2019. The contact also stated that tourism is increasing in popularity in Chisholm with a new mountain bike park. The contacts stated that local financial institutions were willing to meet the credit needs of the community, and there were no unmet credit needs that they were aware of.

St. Louis County, MN AA

Table A – Demographic Information of the Assessment Area

Assessment Area: St. Louis County, MN

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	21	0.0	33.3	66.7	0.0	0.0
Population by Geography	61,634	0.0	31.5	68.5	0.0	0.0
Housing Units by Geography	35,962	0.0	28.4	71.6	0.0	0.0
Owner-Occupied Units by Geography	20,697	0.0	24.7	75.3	0.0	0.0
Occupied Rental Units by Geography	6,981	0.0	53.2	46.8	0.0	0.0
Vacant Units by Geography	8,284	0.0	16.7	83.3	0.0	0.0
Businesses by Geography	4,700	0.0	32.2	67.8	0.0	0.0
Farms by Geography	136	0.0	15.4	84.6	0.0	0.0
Family Distribution by Income Level	16,380	23.0	19.6	22.9	34.6	0.0
Household Distribution by Income Level	27,678	28.5	15.7	18.1	37.8	0.0
Median Family Income MSA - 20260 Duluth, MN-WI MSA		\$64,033	Median Housing Value			\$118,258
			Median Gross Rent			\$535
			Families Below Poverty Level			11.5%
<i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Scope of Evaluation in Minnesota

The rating for the state of Minnesota is based on a full-scope review of the performance in the St. Louis County, MN AA. Refer to Appendix A for additional information on the AA under review.

LENDING TEST

The bank's performance under the Lending Test in Minnesota is rated Needs to Improve.

Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, the bank's performance in the St. Louis County, MN AA is poor. The Lending Test rating includes the LTD ratio analysis and lending inside and outside the AA, as well as the distribution of loans by the income levels of the geography and borrower described below.

The primary driver of the Lending Test performance is the LTD ratio and lending inside and outside the AA, as other performance factors were reasonable.

Distribution of Loans by Income Level of the Geography

The bank exhibits a reasonable geographic distribution of loans in the Minnesota. There were no low-income CTs in the AA.

Consumer Loans

Refer to Table U in the state of Minnesota section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's consumer loan originations and purchases.

The distribution of consumer loans to moderate-income geographies is reasonable. While the bank's proportion of loans in moderate-income CTs was lower than the proportion of households in those geographies, FNB's lending opportunities in these tracts are hindered by proximity to bank locations, competition, and accessibility. The moderate-income CTs are between 7 and 22 miles from FNB branches and include the cities of Hibbing, Virginia, and Eveleth, MN. The city of Hibbing, which is the closest to Chisholm, has five full-service banks and two credit unions available to meet banking needs.

Distribution of Loans by Income Level of the Borrower

The bank exhibits a reasonable distribution of loans to individuals of different income levels given the product lines offered by the bank.

Consumer Loans

Refer to Table V in the state of Minnesota section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's consumer loan originations and purchases.

The distribution of loans to individuals of different income levels is reasonable. The bank's distribution of loans to low-income individuals exceeds the percentage of low-income households in the AA, and the distribution of loans to moderate-income individuals is near the percentage of moderate-income households in the AA.

Responses to Complaints

The bank received no CRA related complaints since the last evaluation.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation and loan products considered. The table also reflects the AA that received a comprehensive examination review, designated by the term “full-scope.”

Time Period Reviewed:	01/01/2019 to 12/31/2021	
Bank Products Reviewed:	Consumer loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None	Not Applicable	Not Applicable
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Minnesota		
St. Louis County, MN	Full-Scope	St Louis County, MN (partial): CTs 121-128, 130-136, 138-140, 151-152, 155

Appendix B: Summary of State Ratings

RATINGS - First National Bank	
Overall Bank:	Lending Test Rating
First National Bank	Needs to Improve
State:	
Minnesota	Needs to Improve

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in 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. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, 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, 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-Scope 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 Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

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-Scope 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: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

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 state/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. The median is the point at which half of the families have income above, and half below, a range of incomes. 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, and half below, a range of incomes.

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.

Rating Area: A rated area is a state or multi-state metropolitan statistical 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 statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Tier 1 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.

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

Table U. Assessment Area Distribution of Consumer Loans by Income Category of the Geography - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households in those geographies.

Table V. Assessment Area Distribution of Consumer Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of households by income level in each MMSA/assessment area.

Table U: Assessment Area Distribution of Consumer Loans by Income Category of the Geography													2019-2021	
Assessment Area:	Total Consumer Loans			Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Not Available-Income Tracts		
	#	\$	% of Total	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
St. Louis County, MN	20	\$295,092	100%	0.0	0.0	31.9	20.0	68.1	80.0	0.0	0.0	0.0	0.0	
<i>Source: 2015 U.S. Census; 01/01/2019 - 12/31/2021 Bank Data. Due to rounding, totals may not equal 100.0</i>														

Table V - Assessment Area Distribution of Consumer Loans by Income Category of the Borrower													2019-2021	
Assessment Area:	Total Consumer Loans			Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Not Available-Income Borrowers		
	#	\$	% of Total	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
St. Louis County, MN	20	\$295,092	100%	28.5	30.0	15.7	15.0	18.1	25.0	37.8	30.0	0.0	0.0	
<i>Source: 2015 U.S. Census; 01/01/2019 - 12/31/2021 Bank Data. Due to rounding, totals may not equal 100.0</i>														