



## **PUBLIC DISCLOSURE**

November 23, 2015

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

The First National Bank of Bemidji  
Charter Number 5582

1600 Paul Bunyan Drive, NW  
Bemidji, MN 56601

Office of the Comptroller of the Currency

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 Outstanding**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Outstanding**

First National Bank of Bemidji's (FNB) overall lending performance is satisfactory and responsiveness to meeting the needs of the bank's assessment area (AA) is excellent.

The major factors that support these ratings include:

- FNB's participation in community development (CD) activities is excellent and helps meet the needs of low- and moderate-income individuals, supports small business development, and promotes economic development in the AA.
- FNB made a substantial majority of its loans inside the AA.
- FNB's distribution of loans to low- and moderate-income borrowers and in low- and moderate-income geographies is reasonable.

**Scope of Examination**

We evaluated First National Bank of Bemidji's (FNB) Community Reinvestment Act (CRA) performance using intermediate small bank examination procedures. We performed a full scope review, including a lending test covering the period from January 1, 2013, through June 30, 2015. We determined the bank's primary loan products by reviewing a loan origination report during this period. The following table depicts the volume of loans originated or purchased during the evaluation period:

<b>FNB Loan Originations from January 2013 - June 2015</b>		
<i>Loan Type</i>	<i>% of Volume by #</i>	<i>% of Volume by \$</i>
Consumer	<b>61%</b>	<b>24%</b>
Commercial	<b>27%</b>	<b>45%</b>
Home Mortgages	8%	29%
Agricultural	4%	2%

*Source: Bank loan origination report for January 2013-June 2015*

The bank's primary loan products are consumer and commercial loans. Combined, these two products represented 88% by number of loans originated during the evaluation period and 69% of loans by dollar amount.

We conducted sampling of the primary loan products to assess the bank's performance in the AA. Our sample consisted of 40 randomly selected loans from the loan origination report referenced above. The sample included 20 consumer and 20 commercial loans originated from within the AA. There were no changes to the census or demographic data during the evaluation period, and as a result, we combined all years reviewed to assess the bank's lending performance. These loans were used to

analyze FNB's performance regarding geographic distribution and lending to borrowers of different income levels.

The evaluation period for the CD Test is November 20, 2012, through October 23, 2015. We reviewed CD loans, investments, and services conducted by the bank, as well as donations provided by the First National Bank of Bemidji Foundation (Foundation), which is an affiliate. The Foundation is a nonprofit organization funded by FNB, with a mission to meet community needs. Those activities meeting the definition of CD are included in this evaluation.

## **Description of Institution**

FNB is a \$640 million institution located in north central Minnesota with branches throughout Bemidji. The bank is wholly owned by First Bemidji Holding Company, a one-bank holding company also located in Bemidji. Bemidji is located in Beltrami County, which is a non-metropolitan statistical area. FNB also serves portions of the surrounding counties, including Hubbard and Cass counties.

FNB has six locations throughout Bemidji. The main office and two branches offer full-service banking services. Three other branches are limited-service and are located in assisted living and nursing home facilities. These are designated to meet the needs of individuals unable to travel to a full-service location. FNB also operates eight automated teller machines (ATMs) in the Bemidji area, four of which are deposit taking. The bank has not opened or closed any branches or ATMs since the last CRA assessment.

FNB is a full-service bank offering a variety of loan and deposit products. As of September 30, 2015, the bank's loan portfolio totaled \$347 million or 54% of total assets. The loan portfolio consisted of 56% real estate, 24% commercial, 18% individual, 1% agricultural, and 1% other loan types.

There are no legal, financial, or other factors preventing the bank from meeting the credit needs of the community. The last CRA examination dated November 19, 2012, resulted in an 'Outstanding' rating.

## **Description of Assessment Area**

FNB has one designated AA that consists of 12 contiguous census tracts (CTs) in north central Minnesota. The AA includes all of Beltrami County as well as northern Hubbard and Cass counties. The AA includes three moderate-income and nine middle-income geographies. Eight of the nine middle-income CTs are also designated as distressed or underserved. The largest city in the AA is Bemidji with a population of 13,400 people. Other cities in the AA include Cass Lake, Redby, and Solway. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

<b>2010 DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA</b>	
Population	
Individuals	52,254
Number of Families	13,110
Number of Households	19,915
% of Low-Income Families	25%
% of Moderate-Income Families	18%
% of Middle-Income Families	21%
% of Upper-Income Families	36%
Geographies	
Number of Census Tracts	12
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	25%
% Middle-Income Census Tracts	75%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$57,683
2015 HUD-Adjusted MFI	\$63,600
Economic Indicators	
2014 Unemployment Rate	
Beltrami County	5.2%
Hubbard County	6.3%
Cass County	7%
Minnesota	4.1%
United States	6.2%
2010 Median Housing Value	\$140,395
% of Households Below Poverty Level	16.8%

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

One of the moderate-income geographies represents the Red Lake Indian Reservation in Beltrami County. The Red Lake Reservation is atypical as it is considered 'closed,' which means that the land is owned by the sovereign Tribe, and cannot be mortgaged. This presents unique challenges to FNB and other local financial institutions. The Tribe has had historically higher unemployment rates than the tri-county area as well as state and national averages. Based on 2010 data from the Bureau of Indian Affairs, the reservation's unemployment rate exceeded 57%. This is compared to the tri-county area's 6.2%, Minnesota's 4.1%, and 6.2% national averages. Another one of the AA's moderate-income tracts encompasses a portion of the Leech Lake Indian Reservation in Beltrami and Cass Counties which exhibits similar economic challenges; however, is not considered a 'closed' reservation.

The remaining AA economy also faces economic challenges, with high poverty and higher unemployment rates than state and national averages. The 2010 census determined 17% of households are at the poverty rate, compared to 15% nationally. Despite these challenges, local major businesses are growing. Major employers include area universities and public school systems as well as Sanford Health Services and Beltrami County.

FNB experiences some competition from other financial institutions in and around the AA. Based on the June 30, 2015, Federal Deposit Insurance Corporation Deposit Market Share Report, there are nine banks within the AA operating 17 offices and sharing \$888 million in deposits. These institutions range in size from a \$68 million community bank to a branch of a \$1.6 trillion nationwide bank. FNB ranks first with a deposit market share of 54%. The next largest competitor has a market share of 13%.

We reviewed several recent community contacts and contacted a local individual to determine the credit needs within the AA. The contact noted that credit needs are largely related to housing, including temporary worker and rental properties, apartment buildings, early retiree housing, and townhomes. Other credit needs include small business loans and those related to economic development.

## Conclusions with Respect to Performance Tests

### LENDING TEST

FNB's performance under the Lending Test is "Satisfactory." The bank's lending performance illustrates reasonable dispersion among borrowers of different incomes and in geographies of different income levels. Lending within the AA is excellent and the bank's loan-to-deposit ratio is reasonable.

### Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, AA needs, and local economic conditions. Over the past eleven quarters, FNB's LTD ratio averaged 66%. The LTD ratio has ranged from as high as 70% to as low as 59%. The ratio is also reasonable in comparison of similarly situated banks. The following table compares FNB's LTD ratio with five other similarly situated financial institutions in the Bemidji area. The LTD ratios of these institutions range from 60% to 89%. FNB's LTD ratio ranks fifth; however, it should be noted that FNB's average LTD ratio does not reflect all home mortgage lending activities, as the bank sells mortgages on the secondary market.

<b>Average Loan-to-Deposit Ratio (6/30/2015) in AA</b>		
<b>Institution</b>	<b>TA (\$000)</b>	<b>Average LTD</b>
Riverwood Bank	\$317,602	89.17%
Security Bank USA	\$127,736	88.68%
American National Bank of Minnesota	\$250,965	84.03%
Deerwood Bank	\$568,838	80.20%
<b>The First National Bank of Bemidji</b>	<b>\$642,331</b>	<b>65.70%</b>
First National Bank of Bagley	\$80,367	60.49%

*Source: Call report data, December 31, 2012 through June 30, 2015*

### Lending in Assessment Area

FNB originates a substantial majority of its loans to borrowers located within its AA. The bank originated 78% of loans by number and 95% by dollar within the AA. The following table illustrates the number and dollar amount of loans originated inside and outside the bank's AA.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	80%	4	20%	20	10,148	96%	419	4%	10,567
Consumer	15	75%	5	25%	20	137	63%	81	37%	218
<b>Totals</b>	<b>31</b>	<b>77.5%</b>	<b>9</b>	<b>22.5%</b>	<b>40</b>	<b>10,285</b>	<b>95%</b>	<b>500</b>	<b>5%</b>	<b>10,785</b>

Source: Loan sample

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

#### Consumer Loans

The distribution of borrowers meets the standard for satisfactory performance and reflects reasonable penetration among individuals of different income levels. FNB's lending to low-income borrowers exceeded the comparable demographics for low-income households in the AA while loans to moderate-income households are slightly lower than comparable demographics. As mentioned previously, the AA exhibits a high poverty level, which we considered in this rating. The following table illustrates the bank's lending to borrowers of different income levels.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	27%	35%	16%	10%	18%	25%	38%	30%

Source: Loan Sample; 2010 US Census Data

#### Commercial Loans

The distribution of borrowers meets the standard for satisfactory performance and reflects reasonable penetration among businesses of different sizes. The bank originated 90% of loans by number to small businesses compared to 80% of small businesses within the AA. The following table illustrates FNB's commercial loans to businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80%	5%	15%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	56%	44%	0%	100%

Source: Loan sample; Dunn and Bradstreet data

## Geographic Distribution of Loans

### Consumer Loans

FNB’s lending distribution meets the standard for satisfactory performance and reflected reasonable dispersion among moderate-income tracts. While the 20% of loans is slightly below the 23% demographic, this is reasonable considering local economic factors. The following table illustrates the bank’s lending to consumers of different income level census tracts.

<b>Geographic Distribution of Consumer Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans						
Consumer	0%	0%	23%	20%	77%	80%	0%	0%

Source: Loan Sample; 2010 US Census Data

### Commercial Loans

FNB’s lending distribution meets the standard for satisfactory performance and provided reasonable dispersion among moderate-income census tracts. The following table illustrates the bank’s lending to businesses of different income level census tracts.

<b>Geographic Distribution of Loans to Businesses in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans						
Business	0%	0%	21%	20%	79%	80%	0%	0%

Source: Loan Sample; 2010 US Census data

## Responses to Complaints

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

## COMMUNITY DEVELOPMENT TEST

FNB's performance under the CD Test is "Outstanding." The bank's CD activities illustrate excellent responsiveness to needs of the AA through CD loans, qualified investments, and CD services. As a result, we placed more weight on the CD test in determining the bank's overall rating.

### Number and Amount of Community Development Loans

FNB's performance in extending CD loans is excellent. The bank originated 28 CD qualifying loans totaling \$16 million during the evaluation period. The bank also originated 33 CD qualifying letters of credit totaling \$1.4 million during the evaluation period. This results in \$17.4 million of total CD loans, which is equivalent to 20% of the bank's Tier 1 Capital as of September 30, 2015. These loans support economic development, community services targeted to low- to moderate-income families, revitalization of the distressed or underserved areas, and affordable housing in the AA.

### Number and Amount of Qualified Investments

FNB's level of qualified investments demonstrates an excellent responsiveness to the needs of the community. During the evaluation period, the bank and affiliated Foundation provided 31 donations and grants totaling \$296 thousand to local groups that provide economic development, affordable housing, and community services targeted to low- to moderate-income families. In addition, the bank purchased 23 statewide investments totaling \$5.8 million from distressed or underserved areas in Minnesota, affordable housing agencies, and those related to CD. The bank also maintained 48 investments totaling \$10.3 million from prior purchases with consistent CD purposes. This results in 102 total qualified investments totaling \$16.4 million. This is equivalent to 19% of Tier 1 Capital as of September 30, 2015. The following table summarizes investment activity conducted by FNB and the Foundation during the evaluation period.

<b>Community Development Investments</b>		
<b>Type</b>	<b>#</b>	<b>Dollar (000's)</b>
Donations/Grants - Local	31	\$296
Current Investment Purchases - Statewide	23	\$5,818
<b>Evaluation Period Investments</b>	<b>54</b>	<b>\$6,114</b>
Prior Investments (Previous Period Purchases) - Statewide	48	\$10,261
<b>Total Investments</b>	<b>102</b>	<b>\$16,375</b>

*Source: Bank investment data*

### Extent to Which the Bank Provides Community Development Services

FNB's CD services are excellent. The bank provides a variety of products and services to serve customers of all income levels and geographies. FNB has six locations and eight ATMs, with two branches and one deposit-taking ATM located in a moderate-

income CT, and the remainder located in CTs designated as distressed or underserved. The bank also offers alternative delivery channels including internet banking, mobile banking, telephone banking, and banking by mail. They also cash checks for non-customers in an effort to provide services for the local 'unbanked' population. Only one other bank in the area provides this service for payroll check cashing, while no others offer tax refund check cashing.

Bank employees are actively engaged in various CD related organizations and events, including those established to address social service needs of low- to moderate-income individuals. During the evaluation period, seven employees served in CD-qualifying capacity for six organizations. These organizations address affordable housing as well as small business and economic development needs of the AA. Other employees are also actively engaged in various community activities and fundraise for local organizations.

### **Responsiveness to Community Development Needs**

As evident by the participation in CD activities, FNB is exceptionally responsive to the community needs of business and economic development and affordable housing, as identified through community contacts and local economic conditions.

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

Pursuant to 12 CFR 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 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.