



**Comptroller of the Currency
Administrator of National Banks**

**Small
Bank**

PUBLIC DISCLOSURE

January 26, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Woodlands National Bank
Charter # 22981
500 Main Street
Onamia, Minnesota 56359**

**Office of the Comptroller of the Currency
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Woodlands National Bank**, prepared by **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **January 26, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C. F. R. § Part 25.*

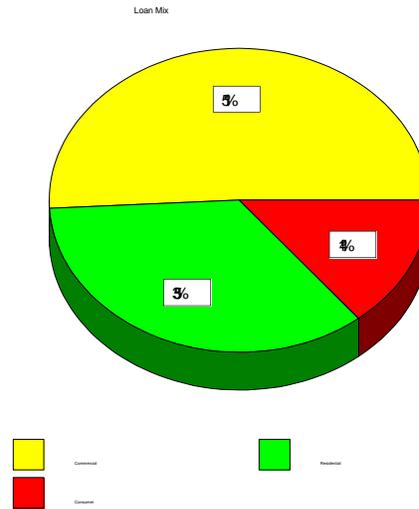
INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

Woodlands National Bank originates loans to individuals of all income levels and businesses and farms of various sizes consistent with the demographics of its assessment area. Woodlands National Bank also has a reasonable loan-to-deposit ratio and originates a majority of its loans within its assessment area. In 1998, Woodlands National Bank began advertising a package of services which was intended to provide loans and other banking services to an underserved segment of the community. The program raised fair lending issues but was discontinued before it had an impact on the community and with no adverse impact on the bank's CRA performance.

DESCRIPTION OF INSTITUTION:

Woodlands National Bank (Woodlands) is a full-service \$21 million bank located in Onamia, Minnesota. It has no branches although it operates five automated teller machines. Woodlands has no legal or financial impediments to its CRA performance.

Woodlands' loan mix indicates a focus on loans to local small businesses, loans secured by residential real estate, and consumer loans for various purposes. The chart to the right highlights the distribution of the bank's \$10 million loan portfolio as of year-end 1997.



The bank is owned by Mille Lacs Bancorporation, Inc., a one-bank holding company owned by the Mille Lacs Band of Ojibwe Indians of Minnesota (the "Band"). Mille Lacs Bancorporation, Inc. purchased the bank in March 1996. This bank was previously known as The First State Bank of Onamia and was chartered as a state bank. The bank has many affiliates due to its association with the Mille Lacs Band of Ojibwe. In addition to the holding company and the Band itself, affiliates include the Grand Casinos in Mille Lacs and Hinckley as well as other small businesses.

The bank's CRA performance was previously reviewed by the FDIC in July 1995.

DESCRIPTION OF WOODLANDS' ASSESSMENT AREA:

Woodlands' assessment area (AA) consists of Mille Lacs County. This county is located in central Minnesota. The county consists of predominately rural areas with small communities throughout. The county has a high unemployment rate of approximately 8% and a high percentage of its population, 14%, has income below the poverty level. The assessment area includes seven block numbering areas (BNAs). Woodlands is located in one of the area's two moderate-income BNAs. The remaining five BNAs are designated as middle-income and are located a distance from the bank in the southern portion of Mille Lacs County. Based on 1995 census data, the AA has a population of approximately 20,000 people. The bank's AA does not arbitrary exclude low- or moderate-income BNAs.

The 1997 nonmetropolitan median family income for the AA is \$36,200. The following

table details the income profile of each BNA and family income demographics of the AA.

Woodlands National Bank's Assessment Area			
	Number of BNAs	% of Total BNAs	% of Families Residing Within the BNA
Low-Income	0	0%	22%
Moderate-Income	2	29%	19%
Middle-Income	5	71%	23%
Upper-Income	0	0%	36%
Total	7	100%	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

Woodlands originates loans to borrowers of all income categories and to businesses of various sizes within its assessment area. In particular, the bank focuses its efforts on originating loans to moderate-income borrowers and to small businesses comparable to the demographics of the AA.

The table below highlights the findings of a sample of 50 loans reviewed by national bank examiners. These loans included all 33 residential real estate loans originated within the assessment area in 1996 and 1997. The sample also included 17 various-purpose consumer loans originated in January of 1998. The bank's volume of loans to moderate-income borrowers exceeds the proportion of these families in the area. Lending levels to middle- and upper-income borrowers are comparable to the demographics while loan volume to low-income borrowers is only minimally under the demographics. Excluding the residential real estate loans from the sample, the bank originates a volume of loans to low-income borrowers comparable to the demographics of the area in terms of the dollar and number of loans.

Distribution of Loans by Borrower Income			
Residential Real Estate and Consumer Loans			
	% of Loans by \$	% of Loans by #	Demographics
Low-Income	7%	16%	22%
Moderate-Income	25%	28%	19%

Distribution of Loans by Borrower Income
Residential Real Estate and Consumer Loans

Middle-Income	19%	20%	23%
Upper-Income	50%	36%	36%

The bank's volume of loans to businesses of various sizes is comparable to the business demographics of the area. By number, 80% of Woodlands' commercial loans are granted to businesses with less than \$500,000 in annual revenues, and this percentage is comparable to the demographics of 82%. The table below highlights Woodlands' loans to businesses of various sizes. This data was derived from a review of commercial lending relationships with new loan activity since the last CRA examination. The outstanding loan volume of these relationships represents 55%, by dollar, of the bank's commercial loan portfolio.

Distribution of Commercial Loans by Annual Revenues of the Businesses			
Based on new loan activity since the last CRA examination			
(000s)	% of Loans by \$	% of Loans by #	1996 Demographics
\$0 to \$250	46%	65%	82% *
\$250+ to \$500	20%	15%	
\$500+ to \$1,000	25%	10%	9%
\$1,000+	9%	10%	9%

* The demographics noted above were compiled by Dun and Bradstreet for businesses electing to report revenue data. D & B does not subdivide revenue levels under \$500,000. And 22% of the businesses included the demographic area elected not to provide revenue data.

Geographic Distribution of Loans

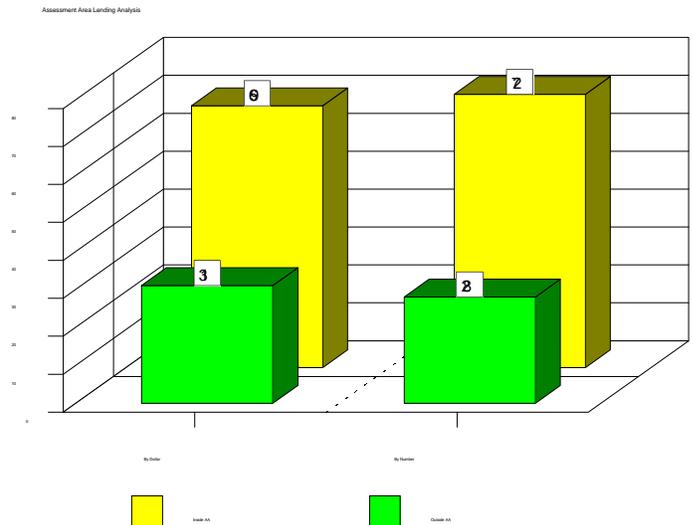
Woodlands' distribution of loan originations is reasonable. An examiner review of the 33 residential real estate loans originated in 1996 and 1997 within the bank's AA reveal that the bank concentrates its lending efforts in the two moderate-income BNAs (9701 and 9702) immediately surrounding its office. All residential real estate loans in the sample were originated to borrowers in these two BNAs. The remaining five middle-income BNAs had no loan penetration. For a bank of this size operating in an AA as geographically large as Mille Lacs County, this concentration is reasonable.

Loan-to-Deposit Analysis

Woodlands' loan-to-deposit ratio is reasonable. Of the eleven banks in a five county area with total assets less than \$50 million, Woodlands ranks ninth in terms of the average loan-to-deposit ratio. It is important to note that Woodlands is also the smallest of these eleven banks. The other banks are at least 10% larger than Woodlands which provides them with a competitive advantage. Since the bank's last CRA examination in July 1995, the quarterly loan-to-deposit ratio has averaged 55%. This is lower than the 68% average for other banks in the area.

Lending Within the Assessment Area

Woodlands originates a majority of its loans within its AA. Of the 42 residential real estate loans originated in 1996 and 1997, 72% (by number) and 69% (by dollar) of these loans are to borrowers within the AA, as highlighted in the chart to the right. The majority of the originations outside of the AA are to borrowers from the nearby Hillman area, which is just outside of the bank's AA. Examiners reviewed 90% of the bank's outstanding commercial loan portfolio which revealed an almost identical ratio of loans within the AA as the analysis of the residential real estate loans.



Response to CRA Related Complaints

Neither the Office of the Comptroller of the Currency nor Woodlands National Bank have received any CRA related complaints since the previous evaluation.

Providing Qualified Services

Woodlands has worked with the Mille Lacs Reservation Housing Authority to meet the housing needs of the Band. Since June 1996, the bank underwrote and currently provides servicing for seven mortgage loans. The Housing Authority provided funding for these loans. In addition, the bank provided special credit services specifically designed to educate the public about home lending issues and personal financial management. Woodlands also donated \$5,000 in 1997 to several local organizations which promote small business development, home ownership counseling targeted to low- and moderate-income individuals, and financial education in moderate-income geographies.

Compliance with Antidiscrimination Laws

Woodlands National Bank is not in substantial compliance with applicable antidiscrimination laws and regulations. During this evaluation, examiners determined that the bank unintentionally violated the Equal Credit Opportunity Act by offering a Preferred Services package to customers based on membership in the Mille Lacs Band of the Ojibwe or employment by a Band-owned business. The making of credit available on preferential terms to borrowers due to a racial affiliation with the Band did not result in a downward adjustment in the bank's CRA rating. The bank discontinued this program upon being

informed by the Office of the Comptroller of the Currency that the program was considered discriminatory on the basis of race or national origin. The bank's intention in developing this program was to target this package of services to an underserved segment of the community.