



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 11, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Bovey
Charter Number 11054**

**301 Second Street
Bovey, Minnesota**

**Office of the Comptroller of the Currency
Duluth Duty Station
302 West Superior Street, Suite 307
Duluth, Minnesota 55802**

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 **The First National Bank of Bovey, Bovey, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 11, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory”.
The First National Bank of Bovey reasonably originates loans throughout its assessment area. The bank meets the area’s credit needs by lending across all income levels and to all business sizes.

The following table indicates the performance level of **The First National Bank of Bovey** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE FIRST NATIONAL BANK OF BOVEY</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	Analysis is not meaningful.		
Response to Complaints	The bank received no complaints since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Bovey is a single office, independent \$13 million bank operating in Bovey, Minnesota. Bovey, located in Itasca county is approximately 10 miles from Grand Rapids, the county seat and largest city in Itasca county. The bank is wholly owned by the Bovey Financial Corporation, a one-bank holding company. The lending focus of the bank's approximately \$7.5 million loan portfolio is as follows:

<u>Type of Loan</u>	<u>Percent of Current Loan Portfolio</u>
Small dollar residential real estate	51%
Commercial, agricultural, and municipal	35%
Individual and consumer installment	14%

There are no financial constraints on the bank that inhibit its CRA performance.

DESCRIPTION OF THE FIRST NATIONAL BANK OF BOVEY'S ASSESSMENT AREA

The First National Bank of Bovey's assessment area is the southeastern portion of Itasca County defined by the block numbering areas (BNAs) of 9804, 9806, 9608, 9809, and 9810. The area's geography is predominately lakes, forest, and iron mines with small cities scattered throughout. The area's economy is dependent on mining, lumber/paper, light manufacturing, and tourism. The vast majority of the BNAs' 24,000 population is located along two U.S. Highways and within the cities of Grand Rapids, Coleraine, and Bovey. The 6,800 area families have the following income characteristics:

Family Income Level:	Total Families By:	
	<u>Number</u>	<u>Percent</u>
Low (under 50% of median income)	1,403	21%
Moderate (50% to 79% of median income)	1,197	17%
Middle (80% to 119% of median income)	1,430	21%
Upper (120% and above of median income)	2,770	41%

The four designated income levels are based on the statewide non-metropolitan statistical area median annual family income of \$36,200. All the BNAs in the assessment area are categorized as middle income. The assessment area meets the criteria of the regulation and does not arbitrarily exclude low or moderate income geographies. Recent community contacts with local government and housing officials affirmed that the area's primary credit needs are for residential real estate and small business loans. A bank in nearby Coleraine and several financial institutions within and immediately surrounding the city of Grand Rapids provide local lending competition.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

The First National Bank of Bovey has a reasonable loan-to-deposit ratio. The bank's average quarterly loan-to-deposit ratio since its last CRA examination in 1993 is 63%. This ratio is near the 68% average loan-to-deposit ratio of financial institutions in Itasca and surrounding counties of Aitkin, Cass, Crow Wing, and St. Louis. The bank's ratio is also near the 65% average for similarly sized financial institutions throughout the state of Minnesota and slightly above the 58% average for the bank's national peer group.

Lending in Assessment Area

The First National Bank of Bovey originates a majority of its loans within its assessment area. Per examiner review of the 334 current borrowers on the bank's books as of this examination date, 82% are located within the assessment area. This accounts for 72% of the total outstanding \$7,433,000 loan portfolio. Examiners also reviewed the bank's lending patterns of all loans originated between January and May 1996 (124 loans totaling \$1,424,000). This review found that 107 (86%) of these loans are within the assessment area. And, in dollar figures, 83% of the \$1,424,000 are within the assessment area.

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

The bank is exceptional in providing credit to businesses of different sizes and to borrowers of various income levels.

The bank's commercial lending demonstrates a willingness to lend to businesses of all sizes, especially small businesses. Examiners reviewed the annual sales revenue for 17 commercial borrowers (35% of the bank's total number of commercial borrowers within its assessment area).

As the following figures show, the bank is doing a good job lending to smaller sized businesses.

<u>Annual revenue of borrower</u>	<u>Percentage of loans</u>
Less than \$100,000	29%
\$100,000 to \$500,000	41%
\$500,001 to \$1,000,000	18%
Greater than \$1,000,000	12%

An examiner review of the sizes of the loans made to the businesses in the sampled commercial borrowers showed a range of below \$10,000 to \$100,000.

In addition, the bank reasonably provides credit to consumers of various income levels. The following figures are based on a sample of 30 residential real estate loans and 40 consumer installment loans originated within the bank's assessment area from January 1995 through June 1996.

<u>Income level of borrower(s)</u>	<u>Percentage of loans by type</u>		<u>Percentage of area families</u>
	<u>Real Estate</u>	<u>Consumer</u>	
Low	23%	25%	21%
Moderate	17%	31%	17%
Middle	33%	13%	21%
Upper	27%	31%	41%

The above noted loan distribution compares favorably to the assessment area's family income demographics. An examiner review of the sizes of the real estate loans in the sample showed a range of below \$10,000 to above \$100,000.

Geographic Distribution of Loans

Due to the small number of BNAs in the assessment area and their homogeneous income category, analysis of the distribution of loans among BNA income levels would not be meaningful.

Response to Complaints

The First National Bank of Bovey did not receive any CRA related complaints since the last examination dated September, 1993.