



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**October 01, 2007**

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

**Woodlands National Bank  
Charter Number 23926**

**122 Main Street  
Hinckley, MN 55037**

**Comptroller of the Currency  
Minneapolis North  
920 Second Avenue South 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, 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.**

- Woodlands National Bank has an excellent penetration among businesses of different sizes and a reasonable penetration among individuals of different income levels in the Mille Lacs and Pine Counties Assessment Area.
- Woodlands National Bank has an excellent penetration among individuals of different income (including LMI) levels and an excellent penetration among businesses of different sizes in the Carlton County Assessment Area.
- The geographic distribution of commercial and consumer loans reflects excellent dispersion throughout the Mille Lacs and Pine Counties Assessment Area.
- Average loan-to-deposit is reasonable.
- A majority of originated loans are in the bank's assessment area.

## **SCOPE OF EXAMINATION**

We evaluated the bank's loan data for the time period beginning January 1, 2005 through August 31, 2007. We used financial information as of June 30, 2007 to calculate the current balance sheet mix. We reviewed business and consumer loan originations as the bank's primary loan products.

## **DESCRIPTION OF INSTITUTION**

Woodlands National Bank (Woodlands NB) is a \$119 million institution located in Hinckley, Minnesota, a city of approximately 1,500 people. Hinckley is conveniently located midway between the Minneapolis/St. Paul area and Duluth, approximately 75 miles from both. The bank has a main office and four branch locations (Onamia, Grand Market, Sturgeon Lake, and Cloquet, Minnesota). The Grand Market branch is located in Onamia and was opened in February 2004 and the Cloquet Branch was opened in December 2005. The bank operates twenty-four cash-dispensing ATM's with seven located in the Grand Casino-Mille Lacs and eight in the Grand Casino-Hinckley. The remaining ATM's are located throughout the assessment areas and surrounding communities.

Woodlands NB is 100% owned by Mille Lacs Bancorporation Inc., headquartered in Onamia, Minnesota. As of June 30, 2007, Mille Lacs Bancorporation, Inc. had total assets of \$18.5 million. Mille Lacs Bancorporation, Inc. is wholly owned by the Mille Lacs Band of the Ojibwe Indians of Minnesota. The bank has many affiliates due to the association with the Mille Lacs Band of Ojibwe including the Grand Casino-Mille Lacs and the Grand Casino-Hinckley.

Woodlands NB offers a wide range of loan and deposit products which are designed to meet the communities needs. As of June 30, 2007, the bank's \$89 million loan portfolio was comprised of the following loan types by outstanding dollar volume: commercial and commercial real estate (56%), residential real estate (23%), consumer (9%), construction and development (8%),

and agricultural and other (4%). Net loans total 72.43% of total assets. Given the addition of the Cloquet branch in the later part of our evaluation period, a greater reliance was put on the other branches to determine the primary products. Based on the dollar and number volume of originations and the bank's business strategy, the bank's primary products are commercial and consumer loans.

There are no financial, legal or other factors that impede the banks ability to meet its CRA obligations. Woodlands NB received a satisfactory rating at its April 14, 2003 CRA evaluation.

## **DESCRIPTION OF ASSESSMENT AREAS**

Woodlands NB has two assessment areas: the Mille Lacs and Pine Counties Assessment Area and the Carlton County Assessment Area. Carlton County is part of the Duluth MN-WI MSA.

### **Mille Lacs and Pine Counties Assessment Area**

The Mille Lacs and Pine Counties Assessment Area (Non-MSA AA) includes the entirety of both of these counties. While the counties are not geographically contiguous, we combined them for analysis purposes and evaluated them as one assessment area due to their similar characteristics. The Non-MSA AA includes fifteen Census Tracts (CTs). Based on 2000 US Census data fourteen of the CTs are middle-income and one CT is moderate-income. The Non-MSA AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 US Census information indicates a population in the Non-MSA AA of 48,860, households of 18,556 and households that are families of 12,947. Based on 2000 US Census information, 19% of families within the Non-MSA AA are low-income, 20% moderate-income, 25% middle-income and 36% upper-income. In addition, 7.26% of families in the Non-MSA AA are below poverty level. Based on the Department of Housing and Urban Development's 2007 estimate, the median family income is \$54,700 for non-metropolitan areas in the State of Minnesota.

According to the US Census, the median housing value in the Non-MSA AA is \$89,569. The 2000 Census information lists owner-occupied units at 58.91% compared to 68.38% statewide where the median housing value is \$118,100. Occupied rental units in the Non-MSA AA account for 13.04% of all housing units and the average rent is \$423 per month. Vacant units in the Non-MSA AA are high at 28% compared to 8% statewide.

Unemployment levels in the Non-MSA AA are higher than the levels in the State of Minnesota. However, they are on a declining trend whereas state levels slightly increased since 2005. According to the US Department of Labor, unemployment rates for July 2007 were 6.1% for Pine County, 6.5% for Mille Lacs County and 4.3% for the State of Minnesota. Pine County unemployment rates were 6.3% in 2006 and 6.6% in 2005. The Mille Lacs County unemployment rates were 6.7% in both 2006 and 2005. Unemployment rates for the State of Minnesota were 4.0% in 2006 and 4.1% in 2005.

Major employers in the Non-MSA AA are gambling industries, full-service restaurants, and elementary and secondary schools. The largest employers in the Non-MSA AA are the Grand Casino – Hinckley and the Grand Casino – Mille Lacs.

Bank competition in the Non-MSA AA is moderate. According to the June 30, 2007 deposit market share report provided from the Federal Deposit Insurance Corporation (FDIC), there are eleven banks in Mille Lacs and Pine Counties. Out of these eleven banks Woodlands NB has the third highest share of deposits with 15.33%.

### **Carlton County Assessment Area**

The Carlton County Assessment Area (MSA AA) includes all of Carlton County which is located in the Duluth, MN-WI Metropolitan Statistical Area (MSA). The MSA AA includes seven Census Tracts (CTs). Based on 2000 US census data, six CTs are middle-income and one CT is upper-income. The Non-MSA AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 US Census information indicates a population in the MSA AA of 31,671, households of 12,017 and households that are families of 8,370. Based on 2000 US census information, 17% of families within this MSA AA are low-income, 18% moderate-income, 24% middle-income and 41% upper-income. In addition, 5.44% of families in the MSA AA are below poverty level. Based on the Department of Housing and Urban Development's 2007 estimate, the median family income for the MSA is \$55,500.

According to the US Census the median housing value in the MSA AA is \$85,661. The 2000 Census information lists owner-occupied units at 72.09% compared to 68.38% statewide where the median housing value is \$118,100. Occupied rental units in the MSA AA account for 16% of all housing units and the average rent is \$389 per month. Vacant units in the MSA AA are elevated at 12% compared to 8% statewide.

The unemployment levels in Carlton County are on a declining trend while the state and MSA levels are increasing. According to the US Department of Labor, the 2005 and 2006 average unemployment for Carlton County was 5.8% and 5.2%, respectively. As of July 2007, the unemployment rate was 5.0%. Statewide unemployment levels during the same time period increased slightly from 4.1% in 2005 to 4.3% in July 2007. Unemployment levels in the Duluth, MN-WI, MSA increased slightly from 5.2% in 2005 to 5.5% in July 2007.

Carlton County offers good employment opportunities and employs more than 16,000 people. Major employers in Carlton County are government offices, trade, transportation and utility companies, and manufacturers. These employers include Fond Du Lac Indian Reservation (1,225 employees), Sappi Fine Paper (580), and USG Interiors, Inc. (530).

Bank competition in the MSA AA is strong. According to the June 30, 2007 deposit market share report provided from the Federal Deposit Insurance Corporation (FDIC), there are nine banks in Carlton County. Woodlands NB has a 3.44% share of deposits. Woodlands NB has only been in the area since December 2005 and has increased their share of deposits from 1.26%

as of June 30, 2006. The FDIC report does not include credit unions and the bank also competes with many of the credit unions in the area.

We contacted one individual involved in the Mille Lacs community to assess the lending needs in the MSA AA and the ability of the local financial institutions to meet these needs. The primary needs identified are small business lending and consumer lending. Woodlands NB was named specifically as understanding the needs of MSA AA and working to meet those needs.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's loan-to-deposit is reasonable given the bank's size, financial condition and the AA's credit needs. The quarterly loan-to-deposit ratio averaged 79.95% and ranged from 57.10% to 91.92% over the 18 quarters from March 31, 2003 to June 30, 2007. In addition, Woodlands NB originates residential real estate loans and sells the loans through the secondary market. The bank started selling these loans in June 2005 and since that time has sold approximately \$18.2 million on the secondary market. While these activities assist in the banks efforts to meet local credit needs, the volume of sold loans are not reflected in the quarterly loan-to-deposit ratio.

Similarly situated banks in the Non-MSA AA have quarterly average loan-to-deposit ratios ranging from 64.66% to 111.99%. Similarly situated banks include banks with a presence in the Non-MSA AA with total assets between \$50 million and \$150 million.

Institution	Assets (as of 6/30/07)	Average Loan-to-Deposit Ratio; 1Q03 – 2Q07
The First National Bank of Pine City	\$55 million	64.66%
The First National Bank of Milaca	\$148 million	73.33%
First National Bank of the North	\$62 million	75.44%
<b>Woodlands National Bank</b>	<b>\$121 million</b>	<b>79.95%</b>
Sherburne State Bank	\$61 million	81.20%
Horizon Bank	\$93 million	111.99%

Similarly situated banks in the MSA AA have quarterly average loan-to-deposit ratios ranging from 79.95% to 115.15%. Similarly situated banks include the banks with a presence in the MSA AA with total assets between \$50 million and \$200 million.

Institution	Assets (as of 6/30/07)	Average Loan-to-Deposit Ratio; 1Q03 – 2Q07
<b>Woodlands National Bank</b>	<b>\$121 million</b>	<b>79.95%</b>
North Shore Bank of Commerce	\$195 million	82.74%
Cornerstone State Bank	\$91 million	86.87%
State Bank of Tower	\$54 million	89.14%
The First National Bank of Moose Lake	\$55 million	102.88%
Northview Bank	\$155 million	115.15%

## Lending in Assessment Area

Woodlands NB originates a majority of its loans to borrowers located within their AAs. To assess the lending in the AAs we pulled a random sample of 20 commercial loans and 20 consumer loans originated between January 1, 2005 and August 31, 2007. The bank originated 70% by number and 64.64% by dollar of loans to borrowers located within the bank's AAs. The following table shows loans originated within the assessment areas by number and dollar volume for the twenty loans we sampled of each loan type.

<b>Table 1 - Lending in Assessment Areas</b>								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Consumer	14	70.00%	6	30.00%	\$259,374	67.37%	\$125,604	32.63%
Commercial	14	70.00%	6	30.00%	\$1,934,016	61.90%	\$1,190,242	38.10%
<b>Totals</b>	<b>28</b>	<b>70.00%</b>	<b>12</b>	<b>30.00%</b>	<b>\$2,193,390</b>	<b>64.64%</b>	<b>\$1,315,846</b>	<b>35.36%</b>

Source: Sample of loans

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

### Mille Lacs and Pine Counties – Non-MSA AA

Woodlands NB has an excellent penetration among businesses of different sizes in the Non-MSA AA. We sampled 20 commercial loans originated from January 1, 2005 to August 31, 2007 located in the Non-MSA AA. These 20 loans totaled \$2.1 million. The bank's volume of commercial loans to businesses with annual revenues of less than \$1 million is high at 95%. The demographics indicate 40% of businesses with unknown annual revenues. In discussion with bank management, and thru our community contact, we determined that approximately 70-80% of businesses in the Non-MSA AA have revenues of less than \$1 million.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Mille Lacs and Pine Counties</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	56.71%	3.32%	39.97%	100.00%
% of Bank Loans in AA by #	95.00%	5.00%	0.00%	100.00%
% of Bank Loans in AA by \$	97.14%	2.86%	0.00%	100.00%

Source: Loan data and 2007 Business Geodemographic Data

In the Non-MSA AA, Woodlands NB has a reasonable penetration among consumer borrowers of different income levels. The following table compares the actual percent of households based on income level located within the Non-MSA AA to those loans made by the bank from the selected sample of 20 consumer loans. The bank's lending to low-income households does not meet demographics, but lending to moderate-income households exceeds demographics by the same percentage. Overall penetration in the Non-MSA AA is reasonable.

<b>Table 2B - Borrower Distribution of Consumer Loans in Mille Lacs and Pine Counties</b>								
Borrower Income Level (per 2007 HUD Estimated Family Income for non- metro areas of MN)	Low-Income (\$0 - \$27,350)		Moderate-Income (\$27,351 - \$43,760)		Middle-Income (\$43,761 - \$65,640)		Upper-Income (\$64,641 and over)	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	23.16%	15.00%	17.27%	25.00%	20.54%	40.00%	39.03%	20.00%

Source: Loan data and 2000 US Census

### Carlton County – MSA AA

Woodlands NB has an excellent penetration among businesses of different sizes in the MSA AA. We sampled 20 commercial loans originated from January 1, 2005 to August 31, 2007 located in this MSA AA. These loans totaled \$2.3 million. Discussions with management indicated that approximately 65-70% of businesses in Carlton County have revenues of less than \$1 million.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Carlton County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	54.06%	2.74%	43.20%	100.00%
% of Bank Loans in AA by #	80.00%	20.00%	0.00%	100.00%
% of Bank Loans in AA by \$	92.46%	7.54%	0.00%	100.00%

Source: Loan data and 2007 Business Demographic Data

Woodlands NB has an excellent penetration among individuals of different income (including LMI) levels. The following table compares the actual percent of households based on income level located within the assessment area to those loans made by the bank from the selected sample of 20 consumer loans. The bank's distribution of loans to low-income households greatly exceeds the demographics. Although lending to moderate-income households is below demographics, combining the number of loans made to low- and moderate-income households exceeds demographics.

Table 2B - Borrower Distribution of Consumer Loans in Carlton County								
Borrower Income Level (per 2007 HUD Estimated Family Income for Duluth, MN-WI, MSA)	Low-Income (\$0 - \$27,750)		Moderate-Income (\$27,751 - \$44,400)		Middle-Income (\$44,401 - \$66,600)		Upper-Income (\$66,601 and over)	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22.15%	40.00%	15.41%	5.00%	19.25%	20.00%	43.19%	35.00%

Source: Loan data and 2000 US Census

### Geographic Distribution of Loans

#### Mille Lacs and Pine Counties – Non-MSA AA

The geographic distribution of commercial and consumer loans reflects excellent dispersion throughout the Non-MSA AA. In the AA, there is one moderate-income CT and fourteen middle-income CTs. The bank exceeded demographics for lending in the moderate-income CT in both loan types.

Table 3A - Geographic Distribution of Loans to Businesses in Mille Lacs and Pine Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	0.00%	0.00%	7.05%	20.00%	92.95%	80.00%	0.00%	0.00%

Source: Loan Sample and 2007 Business Geodemographic Data

Table 3B - Geographic Distribution of Consumer Loans in Mille Lacs and Pine Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00%	0.00%	5.65%	30.00%	94.35%	70.00%	0.00%	0.00%

Source: Loan Sample and 2000 US Census

## Carlton County – MSA AA

The geographic distribution of loans does not provide a meaningful analysis in the MSA AA as none of the CTs in the AA are defined as low or moderate-income.

### **Responses to Complaints**

Woodlands NB has not received any CRA related complaints since its last CRA evaluation dated April 14, 2003.

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

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.