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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

January 30, 1997

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The National Bank of Harvey  
Charter Number 15460**

**920 Lincoln Avenue  
Harvey, ND 58341**

**Office of the Comptroller of the Currency  
Fargo Duty Station  
3211 Fiechtner Drive SW  
Fargo, ND 58103**

**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 National Bank of Harvey** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 30, 1997. 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 Outstanding.

The bank's loan to deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. A substantial majority of loans and other lending activities are in the bank's assessment area. The distribution of borrowers reflects an excellent penetration among businesses, farms, and ranches of different sizes and a good penetration among individuals of different income levels. The geographic distribution of loans reflects an excellent dispersion throughout the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE NATIONAL BANK OF HARVEY</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	X		
Response to Complaints	No Complaints were received since the prior examination.		

## **DESCRIPTION OF INSTITUTION**

The National Bank of Harvey (NB of Harvey) is a \$32 million bank located in Harvey, ND. First Bank Holding Company, Incorporated of Harvey, ND which is a \$3 million one bank holding company, owns a controlling interest in the NB of Harvey.

Total loans outstanding on September 30, 1996 were about \$21 million, which is about 66% of total assets. The bank's loan mix as of September 30, 1996 consisted of about 15% real estate (3% 1-4 family residential, 11% farm real estate, and 1% non-farm non-residential), 38% commercial, 5% consumer, 40% agricultural, and 2% other. The bank's primary customer base is farmers, ranchers, and small businesses.

There are no legal impediments or other factors, including the financial condition of the bank, which hinder the bank's ability to fulfill its CRA obligation.

The Office of the Comptroller of the Currency completed a CRA examination in 1994. The Public Evaluation dated April 6, 1994 rated the bank's CRA performance as "Satisfactory".

## **DESCRIPTION OF ASSESSMENT AREA: Block Numbering Areas (BNA) 9558, 9562, 9566, 9597, 9598, 9599, and 9602.**

The NB of Harvey is located in the northwest corner of Wells County and it is bordered by four other counties. The bank's assessment area (AA) includes the southeast corner of McHenry County, the southern part of Pierce County, the Southern part of Benson County, and all of Wells County and Sheridan County. The BNAs included in the AA are 9558, 9562, 9566, 9597, 9598, 9599, and 9602. The AA includes four moderate- income BNAs and three middle-income BNAs. The four moderate-income BNAs are located the farthest from the bank's office. These four BNAs are included in the AA because the bank makes a large amount of loans to the areas within the BNAs closest to the bank, however, their actual trade area does not necessarily include the outer parts of the BNA.

Census information on the AA identifies a population of approximately 14,800. The 1996 U.S. Census Statewide Non-Metropolitan Median Family Income is \$32,300. The AA population by income level consists of the following:

Population	Low -income Families		Moderate-income Families		Middle-income Families		Upper-income Families		Total	
	#	%	#	%	#	%	#	%	#	%
Moderate-income Tracts	646	30%	497	23%	479	22%	532	25%	2154	100%
Middle-income Tracts	405	19%	390	19%	533	26%	735	36%	2063	100%
Totals	1051	25%	887	21%	1012	24%	1267	30%	4217	100%

There are three similarly situated banks which are privately owned and a branch of a larger community bank in the NB of Harvey's AA. Two of the similarly situated banks are in the outer part of the bank's AA. Employment in the area is diversified among agriculture, including farming and ranching, agricultural-dependent businesses, government, retail trade, and services.

The community contacts included Farm Service Agency (FSA), a local economic development corporation, and a local real estate broker. Discussions with the community contacts disclosed the need for more rental units in the AA, primarily for the elderly. The percentage of owner occupied units is 64%, rental occupied units is 18%, and vacant units is 18%. Of the vacant units, only 3% are rental units. Although rental units are identified as a need, the community contacts stated that it is not currently economically feasible due to the cost of construction versus the ability to cash flow. The median monthly gross rent in the AA is \$226.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :**

### Loan to Deposit Analysis

The bank's loan to deposit (L/D) ratio is more than reasonable, with an average L/D ratio of 78%. We calculated the L/D ratio for each quarter end from June 30, 1994 to September 30, 1996. During the past ten quarters, the L/D ratio ranged from 72% to 84%. The three similarly situated bank's in the bank's AA had average L/D ratios in the range of 42% to 56%.

### Credit Extended Inside and Outside of the Assessment Area

A substantial majority of loans and other lending related activities are in the bank's AA. Our analysis is based on a sample of 153 loan originations, including 42 individual loans, 9 residential real estate loans, and 102 commercial and agricultural loans. About 90% of the number and 78% of the dollar amount of loans in our sample are in the bank's AA.

Based on a sample of loan originations from 6/30/94 to 1/10/97	# of Loans	\$ Amount
	153	\$4,979,027
Percent in Assessment Area	90%	78%
Percent out of Assessment Area	10%	22%

Management completed an assessment of loans in their trade area based on loans outstanding as of January 15, 1997. Total loans outstanding as of January 15, 1997 were \$21.7 million. Management's analysis showed that 85% of the number and 88% of the dollar amount of loans were in the bank's trade area. The bank's trade area is smaller than the bank's actual AA.

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

The distribution of borrowers reflects an excellent penetration among businesses, farms, and ranches of different sizes and a good penetration of individuals of different income levels. We based our analysis on a sample of nine residential real estate loans and 34 installment loans that originated from June 30, 1994 to January 10, 1997.

Population includes 34 installment loans & 9 residential real estate loans	Low-income Families		Moderate-income Families		Middle-income Families		Upper-income Families		Total	
	# of Loans	% of Loans	# of Loans	% of Loans	# of Loans	% of Loans	# of Loans	% of Loans	# of Loans	% of Loans
1-4 family RE	0	0	6	67%	2	22%	1	11%	9	100%
Installment	5	15%	18	53%	1	3%	10	29%	34	100%
Demographic Data	25%		21%		24%		30%		100%	

The distribution of 1-4 family residential real estate loans indicates that there is an excellent penetration in the moderate-income population and a good penetration in the middle-income population. Although there were no loans to low-income families for 1-4 family residential real estate loans, this is mitigated by the fact that 1-4 family residential real estate loans only make up 3% of the bank's loan portfolio. The majority of the bank's low-income families are also located in the moderate-income BNAs, which are located the farthest from the bank's office. NB of Harvey also works with a neighboring bank to offer their customers Federal Housing Loans which are primarily to borrowers in the low and moderate income category. The bank works with the borrower throughout the application process. The NB of Harvey has closed on two Federal Housing loans with a total volume of \$92,300.

The distribution of installment loans indicates that there is an excellent penetration in the moderate-income population. Although the loans to the low-income population did not approximate the demographic data, this is mitigated by the fact that the majority of the bank's

low-income families are located in the moderate-income BNAs, which are located the farthest from the bank's office. The bank's installment loans also make up only 5% of the bank's loan portfolio.

The income distribution for small businesses and agricultural loans shows an excellent penetration to businesses of different sizes. We sampled 97 agricultural and commercial loans to determine the gross income levels of the farms and small businesses. Our sample results showed that 92% of the commercial and agricultural loans had gross income levels of less than \$500,000.

	Gross income for Agricultural and Commercial Businesses					Total
	<\$100,000	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	>\$1,000,000	
# of Loans	15	44	30	0	8	97
% of Loans	16%	45%	31%	0%	8%	100%

Bank management's lending efforts are meeting the small-dollar commercial and agricultural needs of the local communities it serves. A substantial majority of the bank's loans for commercial and agriculture have original dollar amounts of \$100,000 or less. The loan size roughly correlates with the size of a small farm or a small business. The bank has provided funding for two guaranteed loans through FSA and six guaranteed loans through the Small Business Administration (SBA) since the bank's last CRA examination. As of January 28, 1997, the bank had total loans outstanding of about \$250,000 for FSA and \$3.6 million for SBA. The bank was also recognized in 1995 by the SBA as one of the leading banks in North Dakota for lending to small businesses.

Geographic Distribution of Loans

The geographic distribution of loans reflects an excellent dispersion throughout the AA. In our analysis of loans in and out of the bank's AA, we determined that 137 loans out of 153 were in the bank's AA. Of these 137 loans, we completed a geographic distribution of the loans to determine the dispersion of loans among the different income levels of the BNAs. Our analysis shows that 49% of the number of loans were located in moderate-income BNAs and 51% of the number of loans were located in middle-income BNAs. Our analysis also indicates that 59% of the dollar amount of the loans were located in moderate-income BNAs and 41% of the dollar amount of the loans were located in middle-income BNAs. This dispersion of loans among the different BNAs correlates to the percent of BNAs in the AA that were moderate-income and middle-income.

BNA Characteristics	# of BNAs	% of BNAs	# of Loans	% of Loans	\$ Amount	% of Amount
Low-income BNAs	0	N/A	N/A	N/A	N/A	N/A
Moderate-income BNAs	4	57%	67	49%	\$2,923,287	59%
Middle-income BNAs	3	43%	70	51%	\$2,055,740	41%
Upper-income BNAs	0	N/A	N/A	N/A	N/A	N/A
Totals	7	100%	137	100%	\$4,979,027	100%

Our analysis reflects lending in most of the BNAs. Our analysis shows that one middle-income BNA had no loans and one moderate-income BNA had only two loans. Bank management's analysis of total loans outstanding as of January 15, 1997 indicates that the same middle-income BNA had only two loans and the same moderate-income BNA had 24 loans. Bank management, however, stated that several of the borrowers in this middle-income BNA use the Harvey post office as their address because their post office has been closed. Their analysis of loans by geographic distribution was based on zip codes. Bank management also stated that competition in the middle-income BNA is strong due to the overlapping of AAs with the banks in the Rugby, ND area.

Compliance with Antidiscrimination Laws and Regulations

Our examination did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations.