



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 5, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Proctor
Charter Number 11125**

**211 Second Street
Proctor, Minnesota 55810**

**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 Proctor** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 5, 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 **Satisfactory**.

The First National Bank of Proctor's loan-to-deposit ratio is reasonable, given the large volume of small dollar loans and the high level of competition in the area. The bank does a good job of making loans to individuals with low- and moderate-incomes and to small businesses of various sizes. The bank originates a substantial majority of its loans within its assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Proctor (FNB) is located in northeastern Minnesota. The total assets of the bank are approximately \$15 million. The bank's only office is in the city of Proctor (population of approximately 3,000), bordering Duluth, Minnesota (population of approximately 85,000). The bank's primary market niche is 1-4 family residential real estate loans, which represent 74% of its loan portfolio. This includes a large volume of home equity and home improvement loans. Other consumer loans total approximately 11% of the portfolio. FNB's commercial lending (primarily to small businesses) represents less than 15% of the loan portfolio. There are no financial constraints on the bank that inhibit its CRA performance.

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

FNB's assessment area (AA) includes forty-five census tracts located in the southern portion of St. Louis County (Duluth/Superior Metropolitan Statistical Area) and seven block numbering areas (BNAs), which comprise Carlton County (Non-Metropolitan Statistical Area). In the AA, sixteen census tracts (CT) are designated as low-income or moderate-income. The assessment area does not arbitrarily exclude low- or moderate-income CTs or BNAs.

The population of the assessment area is approximately 150,000. The area's economy is dependent on shipping, mining, lumber/paper, light manufacturing, and tourism. Examiners spoke with a local real estate broker and a member of a Proctor development group during the CRA examination. According to discussions with these community members and examiners' knowledge of the area, the local economy is stable. The primary credit needs of the AA were identified as residential real estate, consumer, and small business loans.

There are numerous financial institutions in the AA to meet these credit needs. There are twelve national and state chartered banks with assets ranging from \$10 million to greater than \$100 million. Many have multiple branches. FNB is the second smallest bank. There are also several mortgage companies and credit unions of various asset sizes competing for loans within the AA. Most of the bank's competitors are in the highly concentrated business and residential areas of downtown Duluth and West Duluth. FNB has its own niche area of four census tracts surrounding the bank's office. There are two credit unions located in these tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable. The bank's average loan-to-deposit ratio, since the last examination, is 44.52% versus its local peer group's ratio of 63.73%. The peer group consisted of eleven banks in St. Louis or Carlton Counties with less than \$40 million in assets (including banks that are adjacent to, but outside of, the AA).

While the loan-to-deposit ratio is low in comparison, it is reasonable as the bank generates a large volume of loans for relatively small amounts. Of the 227 loans originated between January 1996 and May 1997, 53% were for \$5,000 or less. This level of small dollar originations is reflective of normal lending patterns.

In addition, FNB is a small bank in a highly competitive market. FNB does not actively seek lending opportunities in areas with strong competition.

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

Borrowers of Different Incomes:

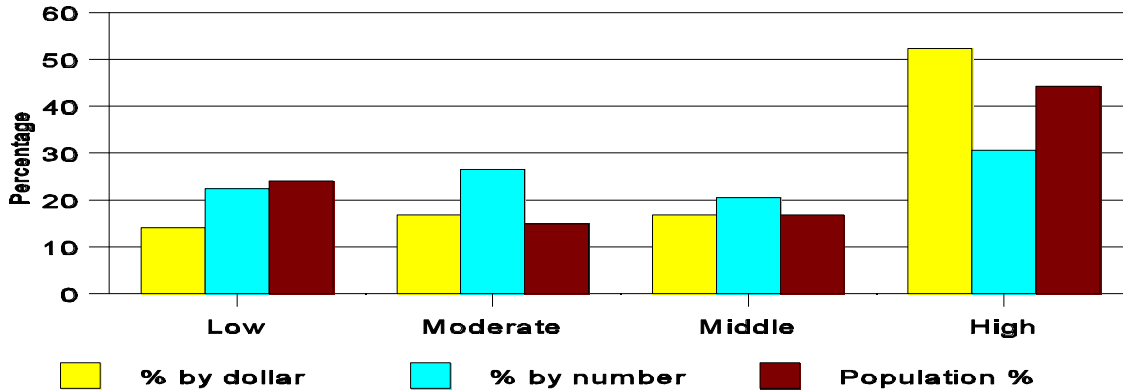
The bank's distribution of loans to borrowers of different incomes is good and reflects the demographics and income levels of the AA population.

We sampled 30% by number (51% by dollar) of loan originations (all loan types) between June 1996 and May 1997. The judgmental sample included mostly home improvement, home equity, and home purchase/refinance loans. The data in the chart on the top of the next page is based on our sample findings.

The income data for the population percentages is based on household incomes in the assessment area compiled from census data and the Department of Housing and Urban Development. The income level of borrowers was determined based on the following percentages of the median family incomes for the Duluth/Superior Metropolitan Statistical Area (\$40,600) and the state non-Metropolitan Statistical Area (\$38,400): Low ($\leq 50\%$), Moderate (51-80%), Middle (81-120%), and Upper ($> 120\%$).

Loan Distribution by Income Levels

Compared to AA Population Demographics



Businesses of Different Sizes:

Although commercial loans are a smaller percentage of the bank's loan portfolio, the bank's distribution of loans to businesses of different sizes is reasonable. The majority of commercial loans are made to businesses with annual revenues less than \$300,000. Businesses with annual revenues less than \$1,000,000 are considered small businesses. Revenue data was obtained by examiner review of income statements or tax returns.

Percentage of The Commercial Portfolio
(Large versus Small Businesses)

Annual Revenues of Businesses

27%

> \$1,000,000

Compared to:

5%

\$1,000,000 - \$300,000

9%

\$ 300,000 - \$200,000

27%

\$ 200,000 - \$100,000

32%

< \$100,000

73%

Total of Small Business Loans

Lending in Assessment Area

FNB originates a substantial majority of its loans within its assessment area. Examiners reviewed bank-generated reports of all loans originated between October 1995 and March 1997. Based on this data, the bank originated 96% of its 256 loans within the AA. This represents 98% by dollar volume. Examiners tested several items on the reports and found the reports to be reliable.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment area, given the bank's location and the competition within the AA.

FNB has a concentration of loans in the three census tracts surrounding the bank which contain the City of Proctor. These census tracts include two middle-income tracts and one upper-income tract. Based on bank-generated reports from October 1995 through March 1997, 52% of loans originated (or 132 loans) were to borrowers in these three census tracts. This represents 39% of the dollar volume of loans originated. The remaining loans are scattered throughout the other 49 CTs and BNAs.

The AA's 16 low- and moderate-income tracts are located in downtown Duluth and West Duluth. Seventeen percent of the AA's population is located in these tracts. Several of the bank's competitors are based in these tracts. Although FNB is physically located away from these tracts, it originated 6% of the sampled loans by number and 9% by dollar volume in these tracts. Due to FNB's distance from these tracts and the number of competing financial institutions within these tracts, FNB's dispersion of loans to the low- and moderate-income tracts is reasonable.

Response to Complaints

Since the last evaluation, FNB received no complaints.

Record of Complying with Antidiscrimination Laws

No violations of the substantive provisions of antidiscrimination laws and regulations were identified.