



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 12, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Northern National Bank
Charter No. 22882**

**11 South Broadway
Pelican Rapids, MN**

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

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 **Northern National Bank** prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of September 12, 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 **Outstanding.**

The distribution of borrowers reflects an excellent penetration among individuals of different income levels, including low- and moderate-income, and businesses of different sizes. The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>NORTHERN NATIONAL BANK</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 not meaningful.		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Northern National Bank (NNB) is a \$63 million bank located in Pelican Rapids, MN. NNB is wholly owned by International Bancorporation, a \$400 million multibank holding company. NNB has a drive-up facility. The bank has an ATM at the main office and at the Holiday Gas Station in Pelican Rapids.

NNB has a branch in Erhard, MN located about seven miles from the main office. The branch location offers all services with the exception of lending. However, applications and requests for loans are taken at the Erhard location and are processed at the main branch.

Total loans outstanding on June 30, 1996 were about \$44 million which is 70% of total assets. As of June 30, 1996, the bank’s loan mix was about 64% real estate (42% 1-4 family residential, 10% nonfarm nonresidential, 8% farm real estate, and 4% multifamily), 18% commercial, 11% consumer, and 7% agricultural. The bank’s primary customer base are area residents for 1-4 family housing 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 Federal Deposit Insurance Corporation completed a CRA examination in 1993. The Public Evaluation dated May 14, 1993 rated the bank’s CRA performance as “Outstanding”.

DESCRIPTION OF ASSESSMENT AREA: BLOCK NUMBERING AREAS 9601, 9602, 9603, 9404, 9607 & 9608

The bank’s assessment area (AA) includes northwestern two-thirds of Otter Tail county. The six BNA’s in the bank’s assessment area are all considered middle-income. Census information on the assessment area identifies a population of approximately 13,500. The 1996 U.S. Census Statewide Non-Metropolitan Median Family Income is \$36,200. There are three similarly situated banks in NNB’s AA. Two are privately owned and one is a branch of a community bank in a neighboring county. NNB is a leader in residential real estate lending. NNB’s loan portfolio is 42% 1-4 family residential real estate. The 1-4 family residential real estate loans in the three similarly situated banks range from 13% to 27%.

Population	Low income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
	#	%	#	%	#	%	#	%	#	%
	764	19%	893	23%	1029	26%	1234	32%	3,920	100%

The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Employment is well diversified in the area which includes tourism services, retail trade, agriculture and related industries, government and manufacturing. Unemployment is low at about 3%. A large local manufacturer employs a significant number of low- and moderate-income individuals. This causes a housing need for either homes in the lower price range and/or mobile homes.

The community contacts included an economic development corporation and a local realtor. Our discussion with a economic development organization and the realtor disclosed the need for the local banks to participate in the First Time Homebuyers program. NNB will refer First Time Homebuyer loans to their sister bank when a request is made for this type of product. The bank, as well as the community contacts, identified affordable housing as one of the credit needs for the community.

The median age of the housing stock in the AA is about 30 years old with the median housing value at about \$56,000. The percentage of owner occupied units is 45%, rental units are 8% and vacant units are 47%. The vacant units include the numerous lake cabins in the bank's AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Analysis

The bank's loan-to-deposit (L/D) is more than reasonable. Three other similarly situated banks in the bank's assessment area have L/D ratios in the range of 50% to 78%. We calculated the L/D ratio for each quarter-end since March 31, 1994. The L/D average is 78%. During the past ten quarters, the L/D ratio went from 72% to 81%. A L/D in this range is considered more than reasonable because it demonstrates the bank's willingness to meet the credit needs in its AA.

Credit Extended Inside and Outside of the Assessment Area:

A majority of the loans and other lending related activities are in the bank's AA. We used internal reports generated by the bank to analyze the extent of lending inside and outside of the AA. We reviewed the bank's internal reports and determined that they were accurate. About 80% of the total number of loans originated by the bank are in the bank's AA and 81% of the dollar amount of loans originated by the bank are in the AA.

Loans originated from 1/1/95 to 6/30/96	# of loans	\$ amount
	1923	\$13,266,687
% in AA	80%	81%
% out of AA	20%	19%

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

The distribution of borrowers reflects an excellent penetration among businesses and farms of different sizes and good penetration among individuals of different income levels. The real

estate numbers are derived from the bank's loan application register from January 1, 1995 to June 30, 1996. We sampled 15 instalment loans that originated in 1996 to determine income levels in the instalment area.

Population All residential real estate loans originated from January 1, 1995 to June 30, 1996.	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		
1-4 family real estate	31	19%	31	19%	55	33%	50	30%	167	100%
Instalment loans	9	60%	1	7%	2	13%	3	20%	15	100%
Demographic data	19%		23%		26%		32%		100%	

The distribution of 1-4 family residential real estate loans is approximates the demographic distribution of the low- and moderate-income population. The bank has also sold 18 loans totaling about \$1,400,000 on the secondary market. These loan products require lower down payments and offer a choice of longer fixed rate terms. The table also indicates that a majority of the bank's instalment loans are to low-income families.

To help meet the affordable housing needs in the community, the bank originated and funded 17 mobile home loans in the past 18 months. The bank financed two mobile home parks which indirectly helps meet the low- and moderate-income housing needs of the community.

The bank is also active in commercial lending which helps meet the housing needs of the community. The bank has financed several housing projects which are typically occupied by elderly. When the elderly move into the housing projects, this creates an empty house which is affordable for the low- and moderate-income individual.

The income distribution for small business loans and agricultural loans shows excellent penetration to businesses of different sizes. We sampled 45 agricultural and commercial loans to determine the gross income levels of the farms and small businesses. Our sample results showed that 91% of the commercial and agricultural loans had gross income of less than \$1,000,000.

	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	27	7	2	5	4	45
% of loans	60%	16%	4%	11%	9%	100%

Bank management's lending efforts are meeting the small-dollar commercial and agricultural needs of the local communities it serves. The bank originated 483 small business and agricultural loans from January 1, 1995 to June 30, 1996. 478 of these loans, or about 99%,

were less than \$100,000. The loan size roughly correlates with the size of a small farm or a small business. The bank also provided funding for four SBA and four FSA loans.

Geographic Distribution of Loans

The six BNA's in the bank's assessment area are all considered middle income. Analysis of this assessment criteria would not be meaningful.

Compliance with antidiscrimination laws and regulations:

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