



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

January 28, 2013

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

First National Bank  
Charter Number 7647

101 West Lake Street  
Chisholm, MN 55719

Office of the Comptroller of the Currency

Minneapolis Field Office  
222 South Ninth Street, 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 Satisfactory.**

The primary factors supporting this rating include:

- The bank originates a majority of its loans within its AA.
- Borrower distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- Geographic distribution of loans reflects reasonable dispersion throughout the bank's AA.

**SCOPE OF EXAMINATION**

This Community Reinvestment Act (CRA) examination assessed First National Bank of Chisholm's (FNB) performance in meeting the credit needs of its community for the period March 31, 2007 to December 31, 2011. The lending test focused on the bank's primary loan products in the AA based on all loan originations by number and dollar volume from January 1, 2010 to December 31, 2011 (lending evaluation period). The bank's primary products are consumer and commercial loans. We placed greater weight on the consumer loans since they represented the largest volume by number of originations. Specifically, during the lending evaluation period, consumer loans represented 75% of all originations by number and 37% by dollar volume. During the same time period, commercial loan originations represented 13% by number and 40% by dollar volume.

We selected a random sample of 20 consumer and 20 commercial loans to evaluate the bank's lending activity within the AA. Additional loans were added for analysis purposes, as needed. Sample results were compared to 2000 U.S. Census demographic data to determine lending performance.

**DESCRIPTION OF INSTITUTION**

FNB is a financial institution headquartered in Chisholm, Minnesota. It is owned by a single-bank holding company, M.I.F. Limited, Inc., which is also located in Chisholm. The bank has three locations, including a full-service office and standalone drive-up facility in Chisholm and a full-service office in Cook, Minnesota. No branches were opened or closed during the evaluation period.

Retail lending continues to be the bank's primary business focus. Per the December 31, 2012 call report, real estate (57%) and consumer loans (17%) comprised 74% of the bank's outstanding loans with commercial loans making up the remaining 26%. FNB's loan portfolio totaled \$16.7 million, or 19.4% of total assets as of December 31, 2012.

The bank received a "Satisfactory" CRA rating at the prior CRA examination on April 16, 2007. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its AA.

## DESCRIPTION OF ASSESSMENT AREA

FNB's AA consists of 21 neighboring census tracts located within St. Louis County, MN. The AA is within a region referred to as the "Iron Range", located within the northern portion of the Duluth, Minnesota – Wisconsin multistate Metropolitan Statistical Area (MSA). The AA is comprised of 17 middle-income census tracts (80.95%) and 4 moderate-income census tracts (19.05%). The AA does not contain any low- or upper-income census tracts. The AA includes the census tracts where the bank's offices are located, as well as the surrounding census tracts where the bank originates a majority of its loans. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 U.S. Census data indicates the bank's AA has a total population of 64,293. The median housing value is \$65,792. Based on the Department of Housing and Urban Development's 2011 estimate, the updated median family income for the AA is \$61,500. According to the 2000 U.S. Census data, 25.23% of the households within the AA are designated as low-income, 17.02% moderate-income, 18.89% middle-income, and 38.86% upper-income. According to the U.S. Bureau of Labor Statistics, the St. Louis County unemployment rate was 6.6% compared to the State of Minnesota unemployment rate of 5.5% as of December 2012.

The community contacts from a local economic development organization and from a local university characterized the current local economic conditions as stable. Both contacts described consumer loans and small business loans as the area's primary credit needs. The community's main industry, mining, is currently providing a stable source of income for many households and benefitting businesses related to the mining industry. One community contact noted that the mining industry is using new technologies, which requires additional education for new employees and makes it more difficult for miners lacking this skill to obtain a job. Both contacts also noted that the population of the area is aging with many young adults leaving the area after graduating from school.

Competition from other financial institutions in the AA is strong. There are 23 other financial institutions operating in St. Louis County. According to the Federal Deposit Insurance Corporation (FDIC), FNB ranks 10<sup>th</sup> out of 23 institutions with 2.06% of the county's market share as of June 30, 2012.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is less than reasonable given the bank's financial capacity and available lending opportunities, as reflected in the LTD ratios of similarly situated banks. FNB's quarterly LTD ratio declined from 55% in March of 2007 to a very low 25% at the end of September 2012. This equates to an average quarterly LTD ratio of 39% for the 23 quarters ending September 30, 2012. While FNB faces strong competition in the AA, all other similarly situation banks (defined as banks located in the AA with total assets between \$50 million and \$115 million) subject to the same competitive factors had higher LTD ratios. LTD ratios for these banks during the same time period ranged from a quarterly average of 97% to 47%. FNB's average quarterly LTD ratio ranks last, and in most cases substantially lower, among these five similarly situated banks.

Institution	Assets (as of 9/30/12)	Average LTD Ratio; 1Q07 – 3Q12
Pioneer National Bank of Duluth	\$83 million	97%
Boundary Waters Bank	\$106 million	95%
Northern State Bank of Virginia	\$62 million	80%
Security State Bank of Hibbing	\$102 million	67%
Miners National Bank of Eveleth	\$53 million	47%
<b>First National Bank</b>	<b>\$86 million</b>	<b>39%</b>

Source: Call Report Data

### Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its defined AA. Of the 40 loans sampled, 70% were originated within the bank's AA. The following table shows lending in the AA by product type:

Lending in FNB's Assessment Areas (AA)										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	18	90.00%	2	10.00%	20	266	94.33%	16	5.67%	282
Commercial	10	50.00%	10	50.00%	20	487	18.23%	2,186	81.81%	2,672
<b>Totals</b>	<b>28</b>	<b>70.00%</b>	<b>12</b>	<b>30.00%</b>	<b>40</b>	<b>753</b>	<b>25.49%</b>	<b>2,202</b>	<b>74.54%</b>	<b>2,954</b>

Source: OCC loan sample

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

FNB’s overall distribution of lending is reasonable among borrowers of different income levels and businesses of different sizes within the AA.

Lending to Borrower’s of Different Incomes

FNB’s distribution of consumer loans reflects excellent penetration among borrowers of different income levels. Based on a sample of 20 consumer loans, the bank exceeds demographics for lending to both low- and moderate-income borrowers. The following table shows the distribution of consumer loans among borrowers of different income levels:

<b>Borrower Distribution of Consumer Loans in Chisholm AA</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	% 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
<b>Consumer Loans</b>	25.23%	40.00%	17.02%	30.00%	18.89%	20.00%	38.86%	10.00%

Source: 2000 Census and OCC loan sample

Lending to Businesses of Different Sizes

FNB’s distribution of commercial loans to businesses of different sizes reflects reasonable penetration. While FNB exceeds the demographic of AA businesses reporting revenues less than \$1 million, 25% of businesses have revenues that are unreported.

<b>Borrower Distribution of Loans to Businesses/Farms in Chisholm AA</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable / Unknown</b>	<b>Total</b>
<b>% of AA Businesses</b>	71.41%	3.38%	25.20%	100%
<b>% of Bank Loans in AA by Number</b>	75.00%	25.00%	0.00%	100%
<b>% of Bank Loans in AA by Dollar</b>	68.90%	31.10%	0.00%	100%

Source: Dun and Bradstreet 2011 and OCC loan sample

### Geographic Distribution of Loans

FNB’s geographic distribution of loans reflects reasonable dispersion throughout the AA. While commercial loan samples showed limited dispersion within moderate-income geographies, competition in the moderate-income tracts is high, impeding FNB’s lending opportunities within these tracts.

#### Geographic Distribution of Consumer Loans

Based on a random sample of 60 loans, the geographic distribution of consumer loans reflects reasonable dispersion. Consumer lending in moderate-income census tracts was 15.00% by number of loans, slightly below the 18.78% of households located in moderate-income census tracts.

Geographic Distribution of Consumer Loans in Chisholm AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
<b>Consumer Loans</b>	0.00%	0.00%	18.78%	15.00%	81.22%	85.00%	0.00%	0.00%

Source: 2000 Census and OCC loan sample

#### Geographic Distribution of Commercial Loans

The geographic distribution of commercial loans reflects reasonable dispersion throughout the AA. Based on a sample of 20 loans, commercial lending in moderate-income tracts was lower than demographics. Only one of the three moderate-income tracts is located near a bank location. All the bank’s locations are in middle-income tracts. Several financial institutions are located within the moderate-income tracts and are able to serve business needs. Impacted by its distance from the moderate-income tracts and strong competition within those tracts, FNB’s performance is reasonable in the moderate-income geographies.

Geographic Distribution of Loans to Businesses/Farms in Chisholm AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
<b>Commercial</b>	0.00%	0.00%	14.09%	5.00%	85.91%	95.00%	0.00%	0.00%

Source: Dun and Bradstreet 2011 and OCC loan sample

### **Responses to Complaints**

No CRA related complaints have been reported since the last CRA examination.

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

Pursuant to 12 C.F.R. § 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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