



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 04, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Walker
Charter Number 8476

600 Minnesota Avenue West
Walker, MN 56484

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street, Suite 800
Minneapolis, MN 55402-3393

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.

The major factors supporting First National Bank of Walker's (FNB Walker) rating are:

- The bank's loan-to-deposit ratio is reasonable.
- The bank originates a substantial majority of loans inside its assessment area (AA).
- The bank has excellent penetration to borrowers of different income levels.
- Geographic distribution of consumer and residential real estate loans is reasonably dispersed throughout FNB Walker's AA.

SCOPE OF EXAMINATION

We evaluated FNB Walker's performance in meeting community credit needs from February 1, 2010 to December 31, 2011 consistent with the provisions of the Community Reinvestment Act (CRA). In order to determine the bank's lending performance, we selected primary products based on loan originations and purchases from January 1, 2010 to December 31, 2011 (evaluation period). We did not review loans originated or purchased in 2012 because comparable demographic data was not available at the time of our evaluation. Based on dollar amount and volume, we determined that the bank's primary products were consumer loans and residential real estate. However, we placed more weight on consumer loans because of the significant volume originated during the evaluation period. Specifically, consumer loans represented 70% by number of loans originated and 12% by dollar volume. During this same time period, residential real estate loan originations represented 18% by number and 56% by dollar volume.

We chose a random sample of 20 loans from each product to conduct our analysis. Additional loans were added for analysis purposes, as needed.

DESCRIPTION OF INSTITUTION

FNB Walker is a \$362 million bank with its main office located in downtown Walker, MN. The bank is 100% owned by Walker Ban Co., a two-bank holding company with the other subsidiary being Lakes State Bank out of Pequot Lakes, MN. At the end of 2011, FNB Walker had five full-service locations and ten ATMs. Branch locations at that time included Akeley, Backus, Hackensack, and Longville. In 2012, the bank purchased two full-service branch facilities in Remer and Jenkins, MN and a drive-up facility in Longville, MN. This analysis focuses on, and heretofore only refers to, the bank's offices and AA prior to the purchase of the three branches in 2012. We did not include this acquisition or the AA expansion it created in our review as comparable demographic data from the 2010 U.S. Census was not yet available.

The previous CRA examination was completed February 1, 2010 and resulted in a rating of outstanding. There are no legal/financial circumstances that affect the bank's ability to meet credit needs

FNB Walker's primary lending focus is commercial and residential real estate loans. As of September 30, 2012, the loan portfolio totaled approximately \$212 million and consisted of 47% commercial real estate (\$99.4 million), 39% residential real estate (\$83.1 million), 8% commercial (\$17.9 million), 5% consumer (\$11.2 million), and 1% agriculture loans (\$162 thousand). While commercial real estate loans represent the largest percentage of the outstanding loan portfolio, consumer and residential real estate loans represented the largest percentage of all originations and purchases by number during the evaluation period. The bank's investment portfolio, including interest-bearing bank balances, totaled 37% of the earning assets as of September 30, 2012.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB Walker's AA includes eight contiguous census tracts within two counties in North-Central Minnesota, Cass and Hubbard. The 2000 census designated six of these tracts as middle-income and two as moderate-income. No low- or upper-income tracts are in the AA. The AA is not within a metropolitan statistical area (MSA). The AA meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

Four of the bank's five branches are located in the center of the middle-income tracts while one branch is in a moderate-income tract. A portion of the moderate-income tracts are within the Leech Lake Band of Ojibwe Indian Reservation. There are 6,333 families in the AA with 22.77% low-income; 23.62% moderate-income; 25.22% middle-income; and 28.39% upper-income. Of these families, 8.54% are below the poverty level.

Tourism fuels the local economy in the AA. The AA contains many lakes, including the third largest lake in Minnesota, Leech Lake. There are many outdoor activities, for both winter and summer, which attract tourists year-round and explains the top industry being Services at 46.69%, according to the 2011 Business Geodemographic Data. Major employers include the many hotels, resorts, and businesses involved in servicing the tourists. The school district, light manufacturing, and gambling are also major sources of employment. According to the Bureau of Labor Statistics, December 2012 unemployment was 9.6% in Cass County and 9.1% in Hubbard County, significantly higher than Minnesota statewide unemployment of 5.5%.

We contacted a member of the Cass County Economic Development Corporation to better understand the credit needs of the AA. The community contact felt that the local credit needs were mostly small business-related and that area financial institutions were meeting those needs. The contact mentioned the local economy has been improving, but the community still faces high unemployment, low wages, and a mediocre public infrastructure from a lack of public water and sewer facilities in outlying areas. This creates a hardship for small businesses who wish to build or relocate facilities in greater Cass County due to significant start-up costs.

Housing values and gross monthly rents have been increasing in the bank's AA. According to the census data for 2000, the median housing value was \$106,750 and monthly rent was \$382. For 2011, the American Community Survey estimated median housing value and median gross rent of \$185,400 and \$637, respectively, for Cass County. For Hubbard County, median housing value and gross rent were \$173,400 and \$662, respectively.

Competition is below average. As of June 30, 2012, there were nine financial institutions in the AA. Of these nine institutions, FNB Walker's deposit market share was the highest at 39.41%. Citizens National Bank of Park Rapids (Park Rapids) held the second largest deposit market share at 24.13%. Combined FNB Walker and Park Rapids accounted for 63.54% of the AA deposit market share at June 30, 2012.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Walker's average quarterly loan-to-deposit (LTD) ratio is reasonable, despite being below that of three similarly situated banks. Similarly situated banks are defined as those located in the AA with asset sizes ranging from \$200 million to \$460 million. The 11-quarter period from January 1, 2010 to September 31, 2012 produced a range in the bank's quarterly LTD ratio of 66% to 82%, which resulted in a 73.06% average. The three similarly situated banks had quarterly average LTD ratios ranging from 73% to 95%. FNB Walker's LTD ratio is reflective of the bank's conservative lending strategy and decreased loan demand in recent years.

Loan-to-Deposit Ratios		
Institution	Assets (as of 9/30/2012)	Average LTD Ratio (1Q10-3Q12)
Bank Forward	\$460 million	94.78%
American National Bank	\$267 million	82.48%
Park Rapids	\$202 million	76.93%
FNB Walker	\$362 million	73.06%

Source: Call Report Data

Lending in Assessment Area

FNB Walker originates a substantial majority of loans inside the AA. Of the 40 loans sampled, FNB Walker originated 95% by number and 97% by dollar amount within the AA.

Lending in FNB Walker’s Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	20	100%	0	0%	20	\$2,096,781	100%	0	0%	\$2,096,781
Consumer	18	90%	2	10%	20	\$ 568,531	89%	\$69,600	11%	\$ 638,131
Totals	38	95%	2	5%	40	\$2,665,312	97%	\$69,600	3%	\$2,734,912

Source: Random sample of 40 loans from First National Bank of Walker

Lending to Borrowers of Different Incomes

FNB Walker’s overall distribution of lending reflects excellent penetration to borrowers of different income levels.

Consumer Loans

Consumer lending to borrowers of different income levels is excellent. Lending to borrowers with low- and moderate-income levels significantly exceeds the percentage of AA households within those income level categories. The percentage of households below the poverty level in the AA is 12.33%.

Borrower Distribution of Consumer Loans in FNB Walker’s Assessment Area								
Borrower 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
Consumer Loans	26.49%	45.0%	19.26%	30.0%	21.57%	25.0%	32.68%	0.0%

Source: Random sample of 20 consumer loan files from FNB Walker; 2000 U.S. Census.

Residential Real Estate Loans

Residential real estate lending to borrowers of different income levels is reasonable. Lending to low-income borrowers is more than reasonable and exceeds the percentage of AA families that are low-income. Furthermore, within the AA 8.54% of families are below the poverty level and may not qualify for credit. The percentage of loans to moderate-income borrowers falls short of the percentage of AA families that are moderate-income.

Borrower Distribution of Residential Real Estate Loans in FNB Walker's Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	22.77%	25.0%	23.62%	15.0%	25.22%	15.0%	28.39%	45.0%

Source: Random sample of 20 residential real estate loans from FNB Walker; 2000 U.S. Census.

Geographic Distribution of Loans

FNB Walker's overall geographic distribution of consumer and residential real estate loans is reasonably dispersed throughout FNB Walker's AA.

Consumer Loans

The geographic distribution of consumer lending shows reasonable dispersion throughout the AA. The percentage of consumer loans to moderate-income tracts meets the ratio of households in moderate-income tracts in the AA.

Geographic Distribution of Consumer Loans in FNB Walker's Assessment Area								
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
Consumer Loans	0.0%	0.0%	20.02%	20.0%	79.98%	80.0%	0.0%	0.0%

Source: Random sample of 20 consumer loans from FNB Walker; 2000 U.S. Census data.

Residential Real Estate Loans

The geographic distribution of residential real estate loans reflects reasonable dispersion throughout the AA. The percentage of residential real estate loans to owner-occupied housing in moderate-income tracts is low, but considered reasonable when considering these factors: 1) there are only 1,647 owner-occupied units within these two moderate-income tracts, despite the large geographical area these CTs comprise; 2) the Longville Branch is the bank's only moderate-income tract location. In addition to being located on the westernmost side of the tract, it is bordered on the north by the Leech Lake Indian Reservation; both factors which impact the bank's lending ability; 3) lending in other portions of the moderate-income tracts are affected by limited road access through state forests. Larger cities, containing a greater populous, are roughly 19 miles away from bank's location. As such, competing banks in Remer, MN are better situated to serve the eastern side of the county's moderate-income tracts.

Geographic Distribution of Residential Real Estate Loans in FNB Walker Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Residential RE	0.0%	0.0%	20.78%	12.0%	79.22%	88.0%	0.0%	0.0%

Source: Random sample of 60 residential real estate loans from FNB Walker; 2000 U.S. Census data.

Responses to Complaints

The bank had no CRA-related complaints during this CRA review period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c), in determining a national bank's (bank) 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.