



**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**

The First National Bank of Proctor  
Charter Number 11125

211 Second Street  
Proctor, MN 55810

Office of the Comptroller of the Currency

Minneapolis Field Office  
222 South Ninth Street, Suite 800  
Minneapolis, Minnesota 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 major factors supporting the institution's rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area.
- The bank originates a substantial majority of its loans within the assessment area.
- The overall distribution of loans reflects reasonable penetration among borrowers of different income levels and business of different sizes within the assessment area.
- The geographic distribution of consumer and business loans reflects reasonable dispersion throughout the assessment area.

**SCOPE OF EXAMINATION**

We assessed the First National Bank of Proctor's (FNB Proctor) record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA).

In order to determine the bank's lending performance, we selected primary products based on loan originations for the period beginning January 1, 2010 and ending December 31, 2011 (evaluation period). We determined that consumer and commercial loans are the bank's primary products, however, more weight was placed on consumer loans for the purposes of this review because of the significant volume of originations during the evaluation period. Specifically, consumer loans represented 75% of all originations by number and 30% by dollar volume. Commercial loans represented 14% by number and 35% of all originations by dollar volume.

We selected a random sample of 20 consumer and 20 commercial loans to conduct our analysis. Additional loans were added for analysis purposes, as needed.

**DESCRIPTION OF INSTITUTION**

FNB Proctor is a \$24 million institution located in northeastern Minnesota. FNB Proctor has one office in Proctor, Minnesota (population of 3,000), which is located adjacent to Duluth, Minnesota (population of 86,000). FNB Proctor does not own, operate, or maintain any automated teller machines.

FNB Proctor's primary lending focus is consumer and commercial loans. As of September 30, 2012, the loan portfolio totaled just over \$12 million and consisted of residential real estate (60%), commercial (25%), and consumer (15%) loans. While

residential real estate loans represent the largest percentage of the outstanding loan portfolio, consumer and commercial loans represented the largest percentage of all originations by number during the evaluation period.

We did not identify any legal, financial, or other factors that would impede the bank's ability to serve the credit needs of its assessment area. FNB Proctor received a "Satisfactory" rating during the previous CRA evaluation dated March 15, 2007.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNB Proctor's assessment area consists of a portion of the Duluth MN-WI metropolitan statistical area (MSA). The assessment area includes 43 contiguous census tracts in the southern half of St. Louis County and all 7 census tracts in Carlton County. The area consists of 12 upper-income tracts, 22 middle-income tracts, 11 moderate-income tracts, and 5 low-income tracts. The assessment area meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

Economic activities in the assessment area are strongly dominated by natural resource-based industries, such as manufacturing and tourism. Principal manufacturing firms include heavy and light manufacturing plants, food processing plants, woolen mills, lumber and paper mills, cold storage plants, fisheries, grain elevators, and oil refineries. Arts and entertainment offerings as well as year-round recreation in a natural environment contributed to growth in the tourism industry over the last few years. Significant regional developments over the past two decades have also created an expansion in the health and education industries. Major health care and hospital systems include St. Mary's Duluth Clinic, St. Luke's Hospital, and Uniprise. The largest educational institutions are the University of Minnesota Duluth and the Duluth Public Schools.

Unemployment levels in St. Louis and Carlton County are higher than the statewide averages. According to the U.S. Bureau of Labor Statistics, the November 30, 2012 unemployment rates for St. Louis and Carlton County were 6.2% and 6.1%, respectively. The state unemployment rate was at 5.6% for this period.

Competition from other financial institutions is high. FNB Proctor ranks 23<sup>rd</sup> in deposit share among 26 financial institutions with a presence in St. Louis and Carlton Counties. The bank has nearly \$22 million in deposits, representing 0.65% deposit market share. Two large financial institutions dominate the market with 45% deposit market share

The following table shows demographic and economic information for FNB Proctor's assessment area:

<b>Demographic and Economic Characteristics of FNB Proctor Assessment Area</b>	
<i>Population</i>	
Number of Families	38,217
Number of Households	60,375
Number of Low-Income Families	6,436
% of Low-Income Families	16.84%
Number of Moderate-Income Families	6,821
% of Moderate-Income Families	17.85%
Number of Middle-Income Families	8,873
% of Middle-Income Families	23.22%
Number of Upper-Income Families	16,087
% of Upper-Income Families	42.09%
<i>Geographies</i>	
Number of Census Tracts	50
% Low-Income Census Tracts	10.00%
% Moderate-Income Census Tracts	22.00%
% Middle-Income Census Tracts	44.00%
% Upper-Income Census Tracts	24.00%
% N/A Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MSA MFI for AA	\$49,615
2000 HUD-2011 Updated MFI	\$61,500
<i>Economic Indicators</i>	
Median Housing Value	\$84,690
% of Households Below Poverty Level	11.84%

We contacted a member of the local economic development organization during this examination. The contact indicated that the local financial institutions are meeting the credit needs of the community, and are proactive in developing relationships and assisting members of the community.

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

### **Loan-to-Deposit Ratio**

FNB Proctor's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area. The bank's LTD ratio averaged 62.71% over the 23 quarters since the previous examination. This compares to similarly situated banks that have had quarterly average LTD ratios ranging from 56.09% to 87.75% over the same period. Lack of loan demand and significant

competition within the local market contributed to FNB Proctor’s lower LTD ratio. Similarly situated banks are those banks with a presence in St. Louis and Carlton Counties, and have total assets ranging from \$24 million to \$31 million.

Loan-to-Deposit Ratios		
Institution	Assets (as of 9/30/2012)	Average LTD Ratio (1Q07-3Q12)
The First National Bank of Buhl	\$24 million	87.75%
Park State Bank	\$30 million	83.34%
Proctor Federal Credit Union	\$31 million	82.87%
<b>The First National Bank of Proctor</b>	<b>\$24 million</b>	<b>62.71%</b>
The First National Bank of Gilbert	\$30 million	56.09%

Source: Call Report Data

### Lending in Assessment Area

FNB Proctor originates a substantial majority of its loans within its assessment area. Based on our sample, 100% of the consumer and commercial loans were originated to borrowers within the assessment area.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	20	100%	0	0%	20	\$285,989	100%	\$0	0%	\$285,989
Commercial	20	100%	0	0%	20	\$2,114,560	100%	\$0	0%	\$2,114,560
Totals	40	100%	0	0%	40	\$2,400,548	100%	\$0	0%	\$2,400,548

Source: Loan Sample

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

FNB Proctor’s overall distribution of lending reflects reasonable penetration among borrowers of different income levels and businesses of different sizes within the assessment area.

#### Lending to Borrowers of Different Incomes

Based on our sample of 20 consumer loans, the distribution of consumer loans to borrowers of different income levels reflects reasonable penetration for low-income borrowers and excellent penetration for moderate-income borrowers. It should be noted that 12% of households within the assessment area are below poverty level. The following table compares FNB Proctor’s consumer lending activity to the demographics within the assessment area.

<b>Borrower Distribution of Consumer Loans in Assessment Area</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
Consumer Loans	23%	20%	15%	25%	19%	45%	43%	10%

Source: Loan Sample; U.S. Census Data (2000).

Lending to Businesses of Different Sizes

Based on our sample of 20 commercial loans, the distribution of commercial loans reflects reasonable penetration to businesses of different sizes. FNB Proctor meets the demographic for lending to small businesses. It should be noted that 27 percent of businesses within the assessment area did not report revenues. The following table compares FNB Proctor’s commercial lending activity to the demographics within the assessment area.

<b>Borrower Distribution of Loans to Businesses in Assessment Area</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>
% of AA Businesses	70%	3%	27%	100%
% of Bank Loans in AA by #	70%	30%	0%	100%
% of Bank Loans in AA by \$	79%	21%	0%	100%

Source: Loan Sample; Dun and Bradstreet Data (2011).

**Geographic Distribution of Loans**

FNB Proctor’s geographic distribution of loans reflects reasonable dispersion throughout the assessment area. While both the consumer and commercial loan samples showed no or limited dispersion within low- to moderate-income geographies, FNB Proctor’s only branch location and its immediate surrounding areas are located in middle-income tracts. In addition, the majority of the low- to moderate-income tracts are located in and around the city of Duluth where the market is saturated with competition. The lack of a physical presence, along with steep competition, impedes the FNB Proctor’s lending opportunities within the low- to moderate-income tracts.

Geographic Distribution of Consumer Loans

Based on our sample of 60 consumer loans, the distribution of consumer loans to geographies of different income levels reflects poor dispersion throughout moderate-income geographies and no dispersion throughout the low-income geographies in the assessment area. The following table compares the bank consumer lending activity to the community demographics within the assessment area.

Geographic Distribution of Consumer Loans in 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	8%	0%	13%	7%	51%	82%	28%	11%

Source: Loan Sample; U.S. Census Data (2010).

Geographic Distribution of loans to Businesses of Different Sizes

Based on our sample of 20 commercial loans, the distribution of commercial loans to geographies of different business sizes reflects no dispersion within the low-income geographies and reasonable dispersion within the moderate-income geographies in the assessment area. The following table compares the bank commercial lending activity to the community demographics within the assessment area.

Geographic Distribution of Loans to Businesses in Assessment Area								
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
Commercial Loans	13%	0%	9%	10%	50%	60%	28%	30%

Source: Loan Sample; Dun and Bradstreet Data (2011).

**Responses to Complaints**

FNB Proctor has not received any CRA-related complaints since its last CRA evaluation dated March 15, 2007.

**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.