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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

June 28, 1996

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Moose Lake  
Charter Number 12947

400 Elm Avenue  
Moose Lake, Minnesota 55767

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 Moose Lake prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 28, 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 "Satisfactory."

The First National Bank of Moose Lake originates a substantial majority of loans within its assessment area. The bank's loan-to-deposit ratio is reasonable, especially considering the volume of loans sold to the secondary market. The bank makes loans to individuals with low- and moderate-incomes and to small businesses of various sizes.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST NATIONAL BANK OF MOOSE LAKE 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		X	
Response to Complaints	No complaints received since the last examination.		

## DESCRIPTION OF INSTITUTION

The First National Bank of Moose Lake (FNB) is a \$30 million bank located in rural eastern Minnesota. The bank's only office is in the city of Moose Lake, which is located 50 miles south of Duluth, Minnesota. The bank's primary lending niche is 1-4 family residential loans, which represent 40% of its loan portfolio. The bank also originates small business operating loans and commercial real estate loans which represent 19% and 18% of the loan portfolio, respectively. The rest of the loan portfolio consists of consumer (13%), agriculture (5%), construction (3%), and municipal (2%) loans. There are no financial constraints on the bank that inhibit its CRA performance. First Financial Services of Moose Lake Inc., a one-bank holding company, owns 100% of the bank.

## DESCRIPTION OF THE FIRST NATIONAL BANK OF MOOSE LAKE'S ASSESSMENT AREA

FNB's assessment area includes the majority of Carlton County, the northern portion of Pine County, and the eastern portion of Aitkin County. The assessment area consists of eight block numbering areas (BNAs). Seven of the BNAs are designated as middle-income BNAs. One BNA, which comprises the eastern portion of Aitkin County, is designated as a moderate-income area. This assessment area, which includes the bank's only office, does not arbitrarily exclude low- or moderate-income BNAs or illegally discriminate.

The population within the assessment area is approximately 28,000. Examiners met with a local real estate broker and a Moose Lake city official during the CRA examination. According to discussions with these community members, the local economy is good. The area's population, businesses, housing, and employment opportunities are all expanding. The median family income for the assessment area is \$27,447, compared to the state non-metropolitan statistical area median family income of \$34,100. The unemployment rate in the area is 4%. Area employment is primarily centered in state facilities (such as the medium security prison and the Minnesota Psychopathic Center) and health care facilities (including the hospital, medical clinic, and nursing home).

Community contacts and a recent housing study conducted by the Arrowhead Regional Development Commission identified the primary credit needs of the community as financing for rental and affordable housing units. With 17% of the population over 65 years old, there is a growing need in the community for more assisted living complexes. Also, with the growth of the community in general, more housing is needed. The current vacancy rate for housing in Moose Lake is less than 1%.

To address these community credit needs, the bank is originating home purchase loans and home improvement loans. The bank is originating some low-interest rate home improvement loans through the Minnesota Housing Finance Authority's Fix Up (MHFA) fund. The bank also offers loans through Chase Manhattan Mortgage Corporation's Neighbor to Neighbor affordable lending program. This program offers lower down payment requirements and higher income-ratio guidelines than conventional underwriting criteria.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

### Loan-to-Deposit Ratio

The bank's quarterly average loan-to-deposit ratio is reasonable in relation to the bank's size, its financial condition, and the demand for credit in the assessment area. The bank's average loan-to-deposit ratio over the prior eleven quarters is 63%; which is slightly above the national peer ratio of 59%.

Local peer banks (i.e. banks in Pine, Aitkin, and Carlton Counties with assets less than \$100 million) had an average loan-to-deposit ratio of 70% over the same time period, which is slightly above FNB's ratio. However, FNB originates real estate loans and sells them on the secondary market. Secondary market loan sales totaled approximately \$1,221,000 in 1995 and \$674,000 in the first five months of 1996. The bank also originated and sold five MHFA home improvement loans (\$46,000) in 1995 and one loan (\$10,000) in the first five months of 1996. These loan originations bring the bank's volume of loan originations in line with the local peer group.

### Lending in the Assessment Area

FNB originates a substantial majority of its loans within its assessment area. Examiners reviewed data from a bank-prepared report of all loans originated from January 1, 1996 to May 31, 1996. Based on this data, the bank originated 97% of its 323 loans within its assessment area. This represents, in dollar volume, approximately \$2,908,000 or 90% of the \$3,239,000 total loans. We tested several items on the internal loan report and found the report to be accurate.

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

FNB's distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable and reflects the demographics and income levels of the assessment area population.

As indicated in the chart below, 27% (by number), of the bank's recent consumer loans were made to borrowers with low incomes even though families with low incomes make up only 21% of the assessment area population. The volume of originations to borrowers with moderate incomes by number (19%), and also by dollar volume (26%), indicate lending performance is in line with the demographic statistics of the assessment area population. Demographic data shows that 20% of families in the assessment area have moderate incomes.

Income Level of Borrowers (Based on state non-MSA median family income of \$34,100)	Bank Originations (\$)	Bank Originations (#)	Incomes of Families in Assessment Area
% Low Income (≤50% or \$17 thousand)	11%	27%	21%
% Moderate Income (51-79% or \$18-27 thousand)	26%	19%	20%
% Middle Income (80-120% or \$28-41 thousand)	26%	27%	22%
% Upper Income (≥120% or \$41 thousand)	37%	27%	36%

The data in the chart above is based on a judgmental sample of 52 consumer/residential loan files representing 29% of the loans originated between January 1, 1996 and May 31, 1996. The income data on families in the assessment area was compiled from census data and the Department of Housing and Urban Development.

FNB lends primarily to small businesses, which vary in size based on sales volume. An examiner's judgmental sample of 23 borrowers with business loans from 1/1/96 to 5/31/96 showed 16 borrowers (or 69%) had gross business revenues of less than \$200,000. The following chart depicts the number of borrowers in the sample for each revenue category.

Gross Annual Business Revenues (000's)	# of borrowers	% of borrowers in sample
up to \$200	16	69%
\$201-\$400	2	9%
\$401-\$600	3	13%
greater than \$600	2	9%

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment area.

Based on the bank-prepared report mentioned previously, the bank's loan originations from January 1, 1996 to May 31, 1996 were concentrated in the BNA which includes the bank's office. Within this BNA, the bank originated 145 loans or 46% of loans originated within the assessment area. The remaining loans were reasonably dispersed throughout the rest of the assessment area considering the locations of competitor banks, distance of the BNA from the bank, sparse populations, and geographic restrictions such as forests or swamp areas.

### Review of Complaints

No complaints were received by the bank since the last examination in 1993.

### Record of Complying with Antidiscrimination Laws

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