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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

July 18, 1996

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Bemidji  
Charter Number 5582

502 Minnesota Avenue  
Bemidji, Minnesota 56619

Office of the Comptroller of the Currency  
Alexandria Duty Station  
1309 Highway 29 North, P. O. Box 849  
Alexandria, Minnesota 56308

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 Bemidji prepared by the Office of the Comptroller of Currency, the institution's supervisory agency, as of July 18, 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 bank's record of extending credit to individuals of different income levels is strong and representative of the demographics of the area. The bank's record of lending to businesses of all sizes is very good. A substantial majority of loans are made within the bank's assessment area. The bank is active in community development loan programs and develops innovative underwriting standards to help meet the community credit needs for low- and moderate-income housing and small businesses.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST NATIONAL BANK OF BEMIDJI 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 were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

The First National Bank of Bemidji (FNB) is a \$222 million institution located in Beltrami County in north central Minnesota. FNB is owned by First Bemidji Holding Company, a one bank holding company. FNB has its main office and two branches in the city of Bemidji, Minnesota. The bank operates three automatic teller machines with locations at the Bemidji main office, the Bemidji north branch office, and on the Bemidji State University campus.

The bank offers a large variety of loan and deposit products and services. The diversified loan portfolio consists of residential real estate (41%), commercial and agriculture (21%), commercial/agriculture real estate (17%), and consumer loans (21%). Primary competition includes three banks, a mortgage company, and two credit unions within the city of Bemidji and an additional ten banks in or bordering FNB's assessment area. There are no legal or financial impediments limiting FNB's ability to help meet community credit needs.

## DESCRIPTION OF FIRST NATIONAL BANK'S ASSESSMENT AREA

FNB's assessment area includes portions of Beltrami, Hubbard, and Cass Counties. The population of the area is 38,631 and trending upward. The assessment area consists of ten contiguous Block Numbering Areas (BNA's). (Please refer to the map of the assessment area in the bank's public file.) The assessment area includes six middle-income BNA's, three moderate-income BNA's, and one low-income BNA. FNB's assessment area complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income areas.

The area median family income is \$25,659 or 75% of the statewide nonmetropolitan median family income. Family incomes within the assessment area are: 27% low income, 19% moderate income, 23% middle income, and 31% upper income. Approximately 24% of the households are below the poverty level and 13% receive public assistance. Major employers include Bemidji State University, a regional medical facility, the school district, and various manufacturing industries.

Community contacts indicated primary credit needs of the area are rental housing, affordable housing/buyer assistance programs, and working capital loans for new businesses. Median housing value is \$49,100 and increasing. Rental housing continues to be in short supply as university students and new residents provide a stable and increasing pool of tenants.

Within the assessment area lies the Red Lake Indian Reservation. Differences in laws

and regulations on the reservation provide unique challenges for banks to lend on the reservation. One of the community contacts indicated FNB has overcome these lending obstacles and is the primary lender on the reservation. For example, individual members of the reservation are not able to hold title to land but can obtain use rights for home sites and other purposes. This directly impairs the bank's ability to offer mortgage products to the reservation population because collateral perfection is not possible. FNB has worked closely with the tribal council to overcome lending obstacles and help meet the credit needs of the reservation community through innovative underwriting practices as discussed further in the Conclusions portion of the evaluation.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :**

**Loan-to-deposit ratio**

FNB's loan-to-deposit ratio is reasonable and comparable to other banks within its assessment area. FNB's loan-to-deposit ratio has been stable and averaged 67% since the last CRA examination dated 12/31/94. The ratio ranks the bank third out of five banks in its primary competitive environment, with competitor ratios ranging from 30% to 78%. Total loans, as of March 31, 1995, amount to \$124 million. Excluded from the loan-to-deposit ratio is commercial loan sales totaling \$5,855,000 since the last examination. In addition to lending for its own portfolio, the bank originates and sells residential real estate mortgages on the secondary market. The following table illustrates the number and the dollar volume of residential mortgage sold on the secondary market since the last examination:

Year	Number of loans	Dollar volume
1994	90	\$5,870,000
1995	115	\$8,089,000
Through May, 1996	53	\$3,884,000
Totals	258	\$17,843,000

FNB actively participates with local government and economic development agencies to enhance credit availability to individuals of low and moderate incomes and to small businesses. Examples of these loan programs include: the State Indian Business Loan program which extends working capital loans to Native American owned businesses, Minnesota Housing Finance Agency loans for first time home buyers and home

improvement loans, and the Headwaters Regional Development Commission loan program for new and existing small businesses. FNB has extended 59 of these type of loans totaling \$5,089,000 since the last examination.

FNB practices innovative underwriting to help meet the housing needs of residents of the Red Lake Indian Reservation. FNB has extended four letters of credit to Red Lake Builders who contract with the Red Lake Housing Authority to build low-income rental units. The four letters of credit total \$829,000 and have aided in the development of 120 rental units.

#### Lending in the Assessment Area

A substantial majority of the bank's loans are within its defined assessment area. FNB tracks loans made within its assessment area by coding loans by township, city or town, and zip code. An internal analysis of all loan originations through June 1996 indicates 93% of the number of loans and 92% of the dollar of loan volume were extended within the bank's assessment area. Our sample of consumer and small business loans verified the bank's analysis.

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

Lending levels indicate excellent penetration to borrowers of different incomes, including low and moderate incomes, and to businesses of all sizes. The loan portfolio is representative of the demographics of the assessment area as demonstrated in the following two tables.

Table One demonstrates lending to individuals of different income levels. The table includes loans extended on the Red Lake Indian Reservation; these loans represent 14% of the number of loans originated year-to-date 1996. The table illustrates a judgmental sample of 60 consumer instalment loans totaling \$332,966 which were extended during the month of April 1996.

Table One

Income level	% of Population	# of Loans %	\$ Volume %
Low	*27%	18%	7%
Moderate	19%	37%	28%
Middle	23%	25%	35%
Upper	31%	20%	30%

\* It should be noted that 24% of the population is below the poverty level and 13% receive public assistance. At this level, few would qualify for credit of any type. FNB's record of qualifying and extending credit to individuals of low incomes is strong.

Table Two demonstrates lending to businesses of different sizes. The table represents a judgmental sample of 25 business and agriculture loans totaling \$727,000 extended during April of 1996. The table illustrates the percentage of number of loans and percentage of dollar volume of loans extended to businesses and agricultural borrowers of different annual sales sizes:

Table Two

Annual Sales	Number	Amount
<100,000	45%	35%
\$100,000-\$250,000	14%	2%
\$250,000-\$500,000	9%	6%
\$500,000-\$1000,000	9%	27%
>\$1,000,000	23%	30%

#### Geographic Distribution of Loans

The distribution of loans reflects reasonable dispersion throughout the bank's assessment area. We were able to refine the bank's analysis of loans in its assessment area and determine dispersion into the different BNA's. The following table illustrates the distribution of total loans originated year-to-date through June 1996 and compares the percentage of number of loan originations and percentage of dollar volume of loans to the percentage of BNA type.

Sample represents 3,148 loans totaling \$45,390,658.

BNA Type	% BNA's	# of Loans %	\$Volume %
Low	10%	14%	3%
Moderate	30%	12%	8.5%
Middle	60%	74%	88.5%

The loan penetration in the moderate income BNA's appears low; however, these

BNA's have large tracts of state forest and undeveloped land and are sparsely populated. Therefore, the analysis reflects lending in all tracts and the distribution of loans is proportional to the population concentrations within the assessment area.

#### Record of Compliance with Anti-discrimination Laws

Based on our review, the bank is complying with anti-discrimination laws. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.