



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**May 12, 2003**

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

**Western National Bank  
Charter Number 13116**

**5629 Grand Avenue  
Duluth, MN 55807**

**Comptroller of the Currency  
Minneapolis North Field Office  
920 Second Avenue South, 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.**

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## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

Western National Bank (WNB) is satisfactorily meeting the credit needs of its assessment area.

- A substantial majority of residential real estate and business loans were originated within the assessment area.
- The bank's average quarterly loan-to-deposit ratio is reasonable compared to other similar sized banks.
- The bank's overall geographic distribution of loans to businesses and individuals is reasonable within the assessment area.
- The distribution of loans in the assessment area to borrowers of different incomes and businesses of different sizes is reasonable and meets or exceeds most demographic benchmarks.

## **DESCRIPTION OF INSTITUTION**

WNB is a \$101 million bank located in Duluth, Minnesota. WNB's main office is located in a west Duluth neighborhood with branches in downtown Duluth and the SuperOne grocery store in Duluth. In addition, the bank has a drive-up facility located in west Duluth. Products, services, and hours are similar at each location. The bank operates six automated teller machines (ATM) located within the assessment area, of which one accepts deposits. WNB's main office, downtown branch, and auto bank are located in low-income census tracts.

WNB is locally owned by Western Bancorporation, Inc., a one-bank holding company. The bank's other affiliates are Premier Credit Corporation (a company that generates and sells automobile loans to WNB), Cass Lake Company (a one-bank holding company), and The First National Bank of Cass Lake (a subsidiary of Cass Lake Company). Western Bancorporation, Inc. purchased Cass Lake Company and its subsidiary, The First National Bank of Cass Lake, in September 2001.

WNB's primary lending products are commercial, residential real estate, and indirect auto loans. Indirect auto loans are loans that the bank purchases from automobile dealerships. As of March 31, 2003, WNB's \$66 million loan portfolio was composed of approximately \$28 million in commercial and commercial real estate loans (43% of total loans), \$16 million in indirect auto loans (24%), \$14 million in residential real estate loans (21%), and \$8 million in other loans (12%) including direct consumer loans, leases, loans to other institutions, and other obligations. Net loans and leases comprise 65% of WNB's total assets.

There are no legal impediments or financial constraints on the bank that limit WNB's ability to meet the credit needs of its assessment area. WNB was rated satisfactory during its last CRA evaluation dated July 20, 1998.

## DESCRIPTION OF ASSESSMENT AREA

WNB's assessment area (AA) includes forty-two census tracts located in the southeastern portion of St. Louis County, Minnesota (Duluth/Superior Metropolitan Statistical Area #2240 (MSA)). The bank's AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income census tracts. The AA includes six low-income census tracts, ten moderate-income census tracts, seventeen middle-income census tracts, and nine upper-income census tracts. See Table 1.

Based on 1990 census data, the population of the AA is approximately 114,000. The AA has approximately 28,867 families of which 17.8% and 17.1% of those families reported low- or moderate-income, respectively. See Table 2. Fifteen percent of families report income below the poverty level. HUD's MSA median family income is \$50,800 for 2002, \$49,800 for 2001, \$46,200 for 2000, and \$43,800 for 1999. Based on census data, 65% of the AA's 48,000 housing units are owner-occupied. Shipping, lumber/paper, light manufacturing, and tourism support the area's economy. Significant employers in the area are in the medical, retail trade, services, government, and manufacturing industries. Unemployment levels are low at 4.8% as of April 31, 2003.

There are several local banks and credit unions located in the bank's AA. These competing financial institutions range in size from approximately \$20 million to \$165 million in total assets. WNB is the third largest independent bank in the AA. In addition to the local, independent banks, WNB competes with several large regional institutions with assets in excess of \$1 billion.

Two community contacts were considered in evaluating the credit needs of the AA. The contacts included a certified real estate broker that services the Duluth market and a semi-government sponsored business development organization that provides direct loans and guarantees to businesses. Based on community contacts, the primary credit need in the AA is residential real estate lending. Affordable existing homes and lack of new homes were the primary credit needs mentioned. Community contacts did not mention any unmet credit needs or lack of financing opportunities for qualified applicants.

**Table 1. shows the assessment area composition by income level based on 1990 census data.**

Assessment Area by Income Level	Number of Census Tracts	Percent of Census Tracts
Low-Income	6	14.3%
Moderate-Income	10	23.8%
Middle-Income	17	40.5%
Upper-Income	9	21.4%

**Table 2. shows assessment area family income demographics based on 1990 census data.**

Family Income Level *	Percent of Families
Low-Income (<50% of median family income)	17.8%
Moderate-Income (50% to <80% of median family income)	17.1%
Middle-Income (80% to <120% of median family income)	22.7%
Upper-Income (at least 120% of median family income)	42.4%

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending in Assessment Area (AA)**

WNB's record of lending within its AA is reasonable. Since the last CRA evaluation, the bank originated a substantial majority of loans within its AA. A random sample of commercial loans showed 20 of 21 loans or 95.2% by number and 96.9% by dollar were originated within the AA.

Analysis of the bank's Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR)\* data showed WNB originated 166 home purchase, home improvement, and refinance loans totaling \$12.3 million within the AA between January 1, 1999 and December 31, 2002. This represents 89.7% by number and 87.9% by dollar of total loans reported. The bank originated 2,940 indirect automobile loans totaling approximately \$39 million from August 1998 to May 2003. Based on a sample of 20 of indirect loans originated between January 1, 1999 and December 31, 2002, the bank originated 45% by number and 41% by dollar to individuals residing within the AA. This lower level is considered reasonable given the nature of the loan product and auto dealerships' ability to attract customers from an area larger than the bank's AA.

\*A sample of 10 HMDA reported loan files were reviewed for accuracy during the CRA examination. The sample found data recorded on the bank's HMDA-LAR accurate.

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

WNB's loan-to-deposit ratio is reasonable. The bank's average quarterly loan-to-deposit ratio is 78% since June 30, 1998. Compared to five other banks of similar asset size in the Duluth portion of the Duluth/Superior MSA, WNB's average quarterly loan-to-deposit ratio ranks second out of the six lenders. The local peer bank group consists of six banks with average assets between \$55 million and \$165 million and an average quarterly loan-to-deposit ratio of 72%, over the same time period. WNB also sells a large volume of residential real estate loans in the secondary market, which is not represented in this ratio. Since August 1998, WNB sold approximately 570 loans totaling \$57 million.

### **Geographic Distribution of Loans**

WNB's overall geographic distribution of loans throughout the AA is reasonable. Residential real estate, indirect auto loans, and commercial and commercial real estate lending indicate a good distribution among the geographies within the AA.

### **Geographic Distribution of Residential Real Estate Loans and Indirect Auto Loans**

The bank's geographic distribution of residential real estate loans is reasonable. Residential real estate performance exceeds the demographics for low-income geographies for all categories of loans. Home purchase performance in moderate-income census tracts also exceeds the demographic. Refinance and home improvement lending performance is similar to the level of owner-occupied housing in moderate-income census tracts. Residential real estate analysis is

based on home purchase, home improvement, and home refinance loans reported on the HMDA-LAR with origination activity compared to the percentage of owner-occupied housing units within each census tract.

WNB's geographic distribution of indirect auto loans is reasonable. Performance shows no indirect auto loans originated within the low-income census tracts; however, performance in moderate-income census tracts exceeds the demographic. Analysis of indirect auto loans is based a sample of 15 loans originated within the AA between January 1, 1999 and December 31, 2002 compared to the percentage of households within each census tract.

### Home Purchase Loans

Income Tract	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Owner-Occupied Housing Units
Low Income (6)	7	10.5%	\$577	9.4%	2.5%
Moderate Income (10)	9	13.4%	\$829	13.4%	12.8%
Middle Income (17)	28	41.8%	\$2,489	40.3%	52.7%
Upper Income (9)	23	34.2%	\$2,278	36.9%	32.0%
Total (42)	67	100.0%	\$6,173	100.0%	100.0%

### Home Improvement

Income Tract	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Owner-Occupied Housing Units
Low Income (6)	2	5.7%	\$58	7.6%	2.5%
Moderate Income (10)	3	8.6%	\$56	7.4%	12.8%
Middle Income (17)	18	51.4%	\$364	47.8%	52.7%
Upper Income (9)	12	34.3%	\$283	37.2%	32.0%
Total (42)	35	100.0%	\$761	100.0%	100.0%

### Home Refinance

Income Tract	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Owner-Occupied Housing Units
Low Income (6)	4	6.4%	\$198	3.7%	2.5%
Moderate Income (10)	9	14.3%	\$616	11.7%	12.8%
Middle Income (17)	36	57.1%	\$2,745	52.1%	52.7%
Upper Income (9)	14	22.2%	\$1,711	32.5%	32.0%
Total (42)	63	100.0%	\$5,270	100.0%	100.0%

### Indirect Auto

Census Tract	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Households
Low Income	0	0%	\$0	0%	9.7%
Moderate Income	4	27%	\$60	29%	18.4%
Middle Income	8	53%	\$95	45%	45.1%
Upper Income	3	20%	\$54	26%	26.8%
Total	15	100%	\$209	100%	100.0%

## **Geographic Distribution of Commercial Loans**

WNB's geographic distribution of commercial loans is reasonable. Performance shows distribution below demographics for low-income census tracts, however lending in moderate-income census tracts exceed demographics. Analysis of 20 sampled commercial and commercial real estate loans show the following distribution.

<b>Census Tract</b>	<b>Number of Loans</b>		<b>Dollar Volume of Loans (000s)</b>		<b>Percentage of Total Non-farm Businesses</b>
Low Income	5	25%	\$450	20%	29.1%
Moderate Income	4	20%	\$571	25%	9.8%
Middle Income	6	30%	\$768	34%	41.5%
Upper Income	5	25%	\$472	21%	19.6%
Total	20	100%	\$2,261	100.0%	100.0%

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

WNB's distribution of loans in the assessment area to borrowers of different incomes and businesses of different sizes is reasonable.

### **Lending to Borrowers of Different Incomes**

Analysis of the WNB's HMDA-LAR for residential real estate loans originated between January 1, 1999 and December 31, 2002 shows a reasonable penetration of loans to low- and moderate-income families. Performance is below the demographic for low-income families in all loan categories. Lending to moderate-income families is below demographics for purchase and refinance loans but above the demographics for home improvement loans. Contacts indicated that housing prices have increased making it difficult for low- and moderate-income individuals to purchase homes. Also, contacts stated that there is an abundance of affordable housing units for rent.

Analysis of WNB's indirect auto loans originated between January 1, 1999 and December 31, 2002 shows a reasonable penetration to low- and moderate-income households. Lending is below the demographic to low-income households; however, lending to moderate-income households exceeds the demographics for indirect automobile loans. Since August 1998, WNB purchased 2,940 indirect auto loans totaling approximately \$39 million.

Between January 1, 1999 and December 31, 2002, WNB originated 165 home purchase, home improvement, and home refinance loans totaling approximately \$12 million within the AA. The following analysis is based on the home purchase, home improvement, and home refinance loans reported on the bank's HMDA-LAR and a sample of 15 indirect auto loans. The home purchase, home improvement, and home refinance tables below compare the borrowers' income levels based on HUD's updated MSA median family income of \$50,800 for 2002, \$49,800 for 2001, \$46,200 for 2000, and \$43,800 for 1999 to the percentage of families within each income category based on 1990 census data. The indirect auto loan table compares borrowers' income

levels to the percentage of households within each income category.

### Home Purchase

Income Category	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Families
Low Income	5	7.5%	\$245	4.0%	17.8%
Moderate Income	9	13.4%	\$637	10.3%	17.1%
Middle Income	16	23.9%	\$1,531	24.8%	22.7%
Upper Income	37	55.2%	\$3,760	60.9%	42.4%
Total	67	100.0%	\$6,173	100.0%	100.0%

### Home Improvement

Income Category	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Families
Low Income	4	11.4%	\$126	16.5%	17.8%
Moderate Income	11	31.4%	\$190	25.0%	17.1%
Middle Income	10	28.6%	\$140	18.4%	22.7%
Upper Income	10	28.6%	\$305	40.1%	42.4%
Total	35	100.0%	\$761	100.0%	100.0%

### Home Refinance

Income Category	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Families
Low Income	10	15.9%	\$526	10.0%	17.8%
Moderate Income	9	14.3%	\$582	11.0%	17.1%
Middle Income	9	14.3%	\$634	12.0%	22.7%
Upper Income	35	55.5%	\$3,528	67.0%	42.4%
Total	63	100.0%	\$5,270	100.0%	100.0%

### Indirect Auto

Income Category	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Households
Low Income	2	13%	\$27	13%	23.8%
Moderate Income	4	27%	\$51	24%	15.0%
Middle Income	6	40%	\$72	35%	16.8%
Upper Income	3	20%	\$59	28%	44.4%
Total	15	100%	\$209	100%	100.0%

### Lending to Businesses of Different Sizes

WNB's commercial lending pattern is reasonably distributed among businesses of different sizes. A sample of 20 commercial and commercial real estate loans originated within the AA between January 1, 1999 and December 31, 2002 shows a reasonable distribution of loans to different size businesses. A significant portion of commercial and commercial real estate loans are originated to businesses with annual revenues greater than \$1 million. Lending to businesses



with annual revenues less than \$1 million is below demographics; however, the overall distribution is still considered reasonable. WNB’s large capital base versus the various smaller banks in the AA allows the bank to lend to larger businesses. Potential errors in the business demographics caused by a high number of businesses that did not report revenue to Dun & Bradstreet may significantly affect the analysis. Community contacts did not indicate a lack of small business lending.

Gross Annual Revenues (000s)	Number of Loans		Dollar Volume of Loans (000s)		Number of Total Business within AA*	
	Count	Percentage	Dollar Volume	Percentage	Count	Percentage
Revenues < \$250	6	30%	\$526	23%		
Revenues \$250-\$500	6	30%	\$564	25%		
Revenues \$500-\$1,000	1	5%	\$75	3%		
Total Revenues < \$1,000	13	65%	\$1,165	52%	5399	92%
Total Revenues > \$1,000	7	35%	\$1,096	48%	455	8%
Total	20	100%	\$2,261	100%	5854	100%

\*Represents businesses that reported revenue. Twenty-five percent of businesses within the AA did not report revenues and are excluded from the distribution.

### **Qualified Investments and Services**

WNB holds and offers investments and lending services tailored to assist low- and moderate-income families. The bank holds two qualified investments for \$445,000 and \$844,000. The purpose of these investments is to fund the renovation and upgrade of low-income apartment complexes within the AA through the Housing & Redevelopment Authority of Duluth, Minnesota. WNB has also acted as a conduit for the Federal Home Loan Bank’s Affordable Housing Program (AHP). Through this program, WNB applies for AHP grants on behalf of community development projects. These investments and services demonstrate the bank’s commitment to pursuing various other means to meet the credit needs of its AA.

### **Record of Compliance with Anti-Discrimination Laws**

Analysis of HMDA data, public comments, and consumer complaints was performed according to the OCC’s risk based fair lending approach. Based on an analysis of the information, the OCC determined that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation.

### **Responses to CRA-Related Complaints**

WNB has not received any CRA-related complaints.