



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**March 18, 2003**

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

**The National Bank of Harvey  
Charter Number: 15460**

**920 Lincoln Avenue  
Harvey, ND 58341**

**Office of the Comptroller of the Currency  
North Dakota and NW Minnesota  
3211 Fiechtner Drive  
Fargo, ND 58103**

**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.**

The National Bank of Harvey rating is based on the following factors:

- The bank's loan to deposit ratio exceeds the standard for satisfactory performance.
- The bank's record of lending to farm and business borrowers in the Assessment Area (AA) meets the standard for satisfactory performance.
- The bank's record of lending to farm and business borrowers of different sizes meets the standard for satisfactory performance.
- The bank's geographic distribution of farm and business loans meets the standard for satisfactory performance.

## DESCRIPTION OF INSTITUTION

The National Bank of Harvey (NBH) is located in the city of Harvey in Wells County in Central North Dakota. NBH does not have any branch offices. NBH assets total \$49 million as of December 31, 2002. First Bank Holding Company, Incorporated of Harvey, ND, a one bank holding company, owns 100% of the bank. The holding company is located in Harvey, North Dakota and has total assets equal to the equity in the bank. There have been no acquisitions or mergers since the previous CRA evaluation. The bank has one affiliate, Harvey Insurance Agency, Incorporated.

The bank is conservative in its business strategy and lending philosophy. NBH offers traditional banking products and focuses its lending primarily on farm and commercial/industrial borrowers and, to a lesser extent on residential real estate and consumer loans. Approximately one-fourth of total loans outstanding are purchased syndicated loans on projects throughout the nation. Net loans represent 56% of total bank assets. Tier One Leverage Capital for the bank is 9.58% of average assets, or \$4.6 million.

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>%</b>
Commercial and Industrial Loans	12,861	46.2
Farm Loans (including real estate)	11,107	39.9
Residential Real Estate Loans	1,820	6.6
Consumer Loans	916	3.3
All Other Loans	1,104	4.0
<b>Total</b>	<b>27,808</b>	<b>100%</b>

**Table data from December 31, 2002 Call Report**

There are no legal impediments that would restrict the bank's ability to meet the credit needs of

the community. The evaluation period for the Performance Evaluation is from January 31, 1997 to April 28, 2003. The most recent CRA rating was “Outstanding”, dated January 30, 1997.

## **DESCRIPTION OF NBH’s ASSESSMENT AREA**

NBH’s AA is comprised of all of Wells and Sheridan Counties as well as adjacent portions of Benson, Pierce, and McHenry Counties in Central North Dakota. The AA is not located within a MSA. The AA includes seven block-numbering areas (BNAs), four of which are moderate-income and three middle-income. The four moderate-income BNAs are located the farthest from the bank’s office. These four BNAs are included in the AA because the bank makes a large amount of loans to the areas within the BNAs closest to the bank, however, their actual trade area does not necessarily include the outer parts of the BNA. The AA contains no low-income or upper-income BNAs.

The AA includes only whole BNAs that are contiguous. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Larger cities included in the AA are Harvey and Fessenden.

The bank’s AA is dependent on farm operations. Employment opportunities outside of the farm industry include; St. Aloisius Medical Center, Canadian Pacific (Soo Line) Railroad, and the Harvey School District. The number of households living below the poverty level is high, at 20.24% of total households. The statewide median income for 2002 is \$41,700.

The bank’s competitors include First International Bank and First State Bank of Harvey. Other competition includes Farm Credit Agency and several area credit unions.

During our evaluation we contacted local community representatives to better understand the AA demographics and to determine the primary credit needs of the AA. We also relied on previous community contacts made by this agency and other governmental agencies. The top credit needs of the AA include small business and agriculture financing.

The demographics of the AA are illustrated in the table on the next page. The information is based on 1990 census data unless otherwise noted. This is the most recent information available during our evaluation.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Population	14,833
Number of Families	4,217
Number of Households	5,938
Number of Low-Income Families	1,051
% of Low-Income Families	24.92%
Number of Moderate-Income Families	887
% of Moderate-Income Families	21.03%
Number of Middle-Income Families	1,012
% of Middle-Income Families	24.00%
Number of Upper-Income Families	1,267
% of Upper-Income Families	30.05%
% Minority Population	.93%
<i>Geographies</i>	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	57%
% Middle-Income Census Tracts/BNA	43%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$22,775
2002 HUD-Adjusted MFI	\$41,700
<i>Economic Indicators</i>	
Unemployment Rate (2002 AA counties)	5.88%
Median Housing Value	\$25,208
% of Households Below Poverty Level	20.24%

## **LOAN SAMPLING**

The bank's primary loan types were determined by taking all loans outstanding as of December 31, 2002. For the purposes of this evaluation, the primary loan types are farm and business loans. Farm loans account for 353 of the number of loans outstanding and 39.9% of the volume of loans. Business loans total 157 of the number of loans and 46.2% of the volume of loans. Residential real estate loans were not selected as a primary loan type due to the limited number of loans made. Farm and business loans closely mirror the community credit needs as identified by the community contact.

To conduct our analysis, we selected a sample of twenty farm and twenty business loans made in the AA and outstanding on December 31, 2002.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

The bank's LTD ratio exceeds the standard for satisfactory performance. The LTD ratio is good given the bank's size, financial condition, and lending opportunities within its AA. The quarterly LTD ratio averaged 82.80% in the 21 calendar quarters from December 31, 1997 to December 31, 2002. During this period, the LTD ratio increased from 68.07% on December 31, 1997 to 94.92% on December 31, 2002.

Comparisons to four similar sized rural community banks located in Central North Dakota with no more than one branch office indicate that the LTD ratio is high. The comparison banks have similar asset sizes, ranging from \$23 to \$59 million. These four banks had average LTD ratios ranging from 27% to 71%.

The high LTD ratio is due in part to a large number of loans purchased from other lending institutions outside of the bank's trade area. Purchased credits amount to 27% of total loans outstanding as of December 31, 2002.

Institution	Assets (as of 12/31/02)	Average Quarterly LTD Ratio
<i>The National Bank of Harvey</i>	51,357,000	83%
First National Bank – McClusky, ND	23,258,000	71%
Peoples State Bank – Velva, ND	26,004,000	59%
First State Bank of Harvey, ND	59,740,000	51%
Merchants Bank – Rugby, ND	42,683,000	27%

### *Distribution of Credit within the Assessment Area by Borrower Income*

Lending to in the AA to business borrowers and to farms of different sizes meets the standard for satisfactory performance.

### **Farm Loans**

NBH's lending to farms of different sizes is good. Lending to farms with revenues under \$1 million exceeds the demographics of the AA. All of the farm loans sampled were to farms with revenues under \$1 million. The following table illustrates NBH's lending to farms. The bank made farm loans in all tracts of the bank's AA.

DISTRIBUTION OF FARM LOANS			
Annual Farm Revenues	≤\$1,000,000	>\$1,000,000	Unreported
% of AA Businesses	97.19	2.06	.75
% of Bank Loans in AA #	100.00	0.00	0.00
% of Bank Loans in AA \$	100.00	0.00	0.00

## Business Loans

Lending to businesses with revenues under \$1 million meets the standard for satisfactory performance. The distribution of numbers of loans to businesses closely reflects the percentage of businesses with revenues under \$1 million. The distribution of loans by dollar volume is impacted by relatively large advances to businesses with revenues over \$1 million. Loans to businesses with revenues over \$1 million average \$63,700 while the average size of loans to businesses with revenues under \$1 million is \$45,120.

DISTRIBUTION OF BUSINESS LOANS			
Annual Business Revenues	≤ \$1,000,000	> \$1,000,000	Unreported
% of Businesses in AA	72.84	5.45	21.71
% of Bank Loans by #	70.00	30.00	0.00
% of Bank Loans by \$	65.39	34.61	0.00

## Geographic Distribution of Loans

NBH's geographic distribution of loans throughout its AA meets the standard for satisfactory performance.

## Farm Loans

The geographic distribution of farm loans is good. The percentage by number and dollar volume of farm loans in the moderate-income area exceeds the portion of farms within that geography. The following table illustrates the bank's performance.

FARM LOANS								
Block Numbering Area Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Farms	NA		48.41		51.59		NA	
LOANS	% of Number	% of Amount						
20	NA	NA	65%	80.65%	35%	19.35%	NA	NA

## Business Loans

The geographic distribution of business loans is satisfactory. All commercial loans made in the AA are to small businesses. The percentage by number of small business loans in the moderate-income area is less than the portion of small businesses within that geography. Small business lending is concentrated in the middle-income tracts consisting of the city of Harvey and the areas immediately surrounding the city. The following table illustrates the bank's performance.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Small Businesses	NA		36.65		63.35		NA	
LOANS	% of Number	% of Amount						
20	NA	NA	15%	16.8%	85%	83.2%	NA	NA

### *Comparison of Credit Extended Inside and Outside the Assessment Area*

Lending within the AA meets the standard for satisfactory performance. A majority of loans are originated within the AA. Dollar volume of loans made in the AA is low because the bank purchased several large loan participations from institutions outside the bank's trade area. We used both our sample of farm and business loans and the bank's internal reports to assess the bank's lending in the AA. The following table illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Farm Loans (Sample)	19	95%	455	99.44%	1	5%	3	.56%
Business Loans (Sample)	13	65%	854	48.64%	7	35%	902	51.36%
Total Reviewed	32	80%	1,309	59.12%	8	20%	905	40.88%

## RESPONSES TO COMPLAINTS

NBH has not received any CRA related complaints during the evaluation period.

## FAIR LENDING REVIEW

An analysis of public comments and consumer complaint information over the evaluation period was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.