



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 13, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Moose Lake
Charter Number 12947**

**400 Elm Avenue
Moose Lake, MN 55767**

**Comptroller of the Currency
Minneapolis North
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.

INSTITUTION'S CRA RATING:

This institution is rated Satisfactory.

- The First National Bank of Moose Lake (FNB) originates a majority of loans by number and dollar within its assessment area.
- Lending to businesses of different sizes is excellent and lending to consumers of different income levels is reasonable.
- The geographic distribution of loans throughout the assessment area is reasonable.
- The bank's average loan-to-deposit ratio is more than reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank of Moose Lake (FNB) is a \$59 million institution located in rural eastern Minnesota. FNB operates two offices and one automated teller machine (ATM) in the city limits of Moose Lake, Minnesota. The ATM is located at Market Place Foods in Moose Lake. FNB's offices offer traditional banking products and services and maintain standard banking hours.

The bank is 100% owned by First Financial Services of Moose Lake, a \$7.8 million holding company. First Financial Services also wholly owns First National Insurance Agency of Moose Lake.

FNB's primary products consist of business and residential real estate lending. The bank's loan portfolio was comprised of the following loan types by outstanding dollar volume on December 31, 2006: residential real estate (39.99%), commercial and commercial real estate (38.29%), construction and development (10.91%), agricultural (5.96%), consumer (4.13%), and other (0.72%). FNB's loan portfolio totaled \$51 million, or 86.91% of total assets.

FNB received a satisfactory rating at its July 31, 2001 CRA evaluation. There are no legal or financial constraints on FNB that would inhibit its CRA performance.

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

FNB's assessment area consists of ten census tracts (CTs) in three counties. The bank's assessment area recently changed and now includes all of Carlton County, which is part of the Duluth Metropolitan Statistical Area (MSA), two CTs in the northern portion of Pine County, and one CT in the eastern portion of Aitkin County. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. See tables below for census tract and family income details.

Assessment Area by Income Level	Number of Census Tracts	Percent of Census Tracts
Low-Income	0	0.00%
Moderate-Income	1	10.00%
Middle-Income	8	80.00%
Upper-Income	1	10.00%

Family Income Level	Percent of Families
Low-Income	18.18%
Moderate-Income	18.87%
Middle-Income	23.93%
Upper-Income	39.02%

The median value of owner occupied housing units per 2000 US Census data for the State of Minnesota was \$122,400. The US Census data indicates the median housing value for the bank's assessment area was \$84,184 with 62.41% of all housing units owner-occupied.

The areas population was estimated at 39,322 in the 2000 US Census. There are a total of 10,537 families located within the assessment area. The 2005 Updated HUD Estimated Median Family Income in the MSA was \$54,850 compared to the nonMSA statewide median family income of \$54,100. The 2000 US Census data indicates that 9.66% of households and 6.14% of families in the assessment area are below the poverty level.

According to the Minnesota Workforce Center, unemployment levels in the State of Minnesota as of December 2006 were at 4.2%, compared to 5.0% for Carlton County, 6.6% for Aitkin County, and 7.6% for Pine County. The nation wide unemployment rate as of December 2006 was 4.3%. Major employers in the City of Moose Lake include Mercy Hospital and Health Care Center, Minnesota Correctional Facility of Moose Lake, and Department of Human Services.

Bank competition in FNB's assessment area is moderate. There are several other similarly sized financial institutions in the area. Lake State Federal Credit Union is FNB's most direct competitor as it is also located in the City of Moose Lake. FNB has 7.32% of the market share in Carlton, Aitkin, and Pine Counties according to deposit information obtained as of June 30, 2006 from the Federal Deposit Insurance Corporation.

We contacted a Moose Lake city official as part of this CRA evaluation. The official described local economic conditions as strong. There is a plan to expand both state facilities over the next ten years. The expansion will cost \$100-\$110 million and is estimated to provide an additional 1,000 jobs. The contact stated that there is a strong demand for all types of housing in the community and surrounding townships. It was estimated that 10 to 20 new units have been constructed each year, for the past several years.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is more than reasonable. From June 30, 2001 to December 31, 2006, the bank's quarterly loan-to-deposit ratio ranged from 82% to 111% and averaged 98%. This ratio is higher than past performance and ranks second among similarly situated banks (defined as banks with offices located in the assessment area with total assets between \$50 million and \$90 million as of year-end 2006).

Institution	Assets (as of 12/31/06)	Average Loan-to-Deposit Ratio; 2Q01 – 4Q06
First National Bank of the North	\$ 63 million	74%
State Bank of Tower	\$52 million	87%
Cornerstone State Bank	\$90 million	89.0%
First National Bank of Moose Lake	\$58 million	98%
Grand Timber Bank	\$50 million	102%

Lending in Assessment Area

FNB originates a majority of loans within its assessment area. To assess the lending in the assessment area for residential real estate loans we relied on HMDA data for January 01, 2004 – December 31, 2006. Given the recent downturn in residential real estate loan originations, we chose to use the 2004 data as that made up a significant portion of the residential real estate over the past three years and was more reflective of the bank's lending activity. To assess the lending in the assessment area for business loans and home equity lines of credit (HELOC) we pulled a random sample of 20 loans of each type originated between January 01, 2005 and January 31, 2007. HELOC's were sampled as they are not included in the residential real estate HMDA data. However, they are a significant portion of the aggregate residential real estate loans. The bank originated 79.6% by number and 84.1% by dollar volume of loans in its assessment area. The bank's ratio of lending in the assessment area was calculated from its primary loan types. Business loans and residential real estate loans were selected as primary loan types based on analysis of loan originations since the last CRA exam.

Table 5. In/Out Lending Analysis	In Assessment Area By Number %	In Assessment Area by Dollar %
Business Loans (Random Sample)	100.00%	100.00%
Home Equity Lines of Credit (Random Sample)	95.00%	97.33%
Residential Real Estate (HMDA Data)	43.80%	54.97%
Aggregate Results	79.60%	84.10%

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

FNB's distribution of loans to different size businesses is excellent. The table below represents data taken from a random sample of 20 business loans located in the bank's assessment area.

The business revenue of sampled loans ranged from \$11M to \$152M.

Revenue Size of Business	By Number %	By Dollar %	Demographic for Assessment Area*
Less Than \$1 Million	100%	100%	60.65%
Greater Than \$1 Million	0%	0%	3.23%
Revenue Not Reported	0%	0%	36.12%

* Per 2005 Business Geodemographic Data

The bank's distribution of loans to individuals of different income levels is reasonable. Residential real estate HMDA data and the HELOC loan sample data were combined to assess the distribution of loans to individuals of different income levels. The bank's distribution of residential real estate loans to low and moderate income levels are below the demographics but remain adequate as 6.14% of families in the assessment area are below the poverty level and the bank's branches are both located in a middle-income census tract.

Table 7. Income Level of Borrower	By Number %	Demographic for Assessment Area*
Low	7.04%	18.18%
Moderate	12.68%	18.87%
Middle	29.58%	23.93%
Upper	50.70%	39.02%

*Per 2000 US Census Data

Geographic Distribution of Loans

The geographic distribution of business loans throughout the assessment area is reasonable. Based on the business loan sample, the distribution of loans throughout the assessment area is reasonable considering the location of competing financial institutions, distance of individual census tracts from FNB offices, and the population and geographic characteristics of the assessment area.

Business Loans Income Level of Geography	Business Loans by Number %	Business Loans by Dollar %	Assessment Area Businesses %*
Low-Income	0%	0%	0.00%
Moderate-Income	5%	3.23%	7.87%
Middle-Income	95%	96.77%	82.67%
Upper-Income	0%	0%	9.47%

*Per 2005 Business Geodemographic Data

FNB's distribution of residential real estate loans by geographies of different income levels is reasonable. Residential real estate HMDA data and the HELOC loan sample data were combined to assess the distribution of loans to different geographies. The bank's geographic distribution of residential real estate loans in the moderate-income census tract is below demographics. However, FNB's offices are all located in the middle-income geographies, and

the moderate-income geography is in the far west portion of the AA with limited access to FNB's offices.

Residential RE Income Level of Geography	Residential RE Loans by Number %	Assessment Area Owner Occupied %*
Low-Income	0%	0.00%
Moderate-Income	1.37%	8.58%
Middle-Income	97.26%	79.51%
Upper-Income	1.37%	11.91%

* Per 2000 US Census data

Responses to Complaints

FNB has not received any CRA related complaints since its last CRA evaluation dated July 30, 2001.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.