



## **PUBLIC DISCLOSURE**

July 20, 1998

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

**Western National Bank  
Charter Number 13116**

**5629 Grand Avenue  
Duluth, Minnesota 55807**

**Comptroller of the Currency  
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 **Western National Bank**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 20, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C. F. R. § Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated “**Satisfactory**”.

Western National Bank’s distribution of loans to low- and moderate-income borrowers and small businesses is very strong and meets or exceeds most demographic benchmarks. The bank also originates a high volume of loans as evidenced by its loan to deposit ratio. These loans are reasonably disbursed throughout the assessment area, including low- and moderate-income census tracts. A majority of these loans are originated within the bank’s assessment area.

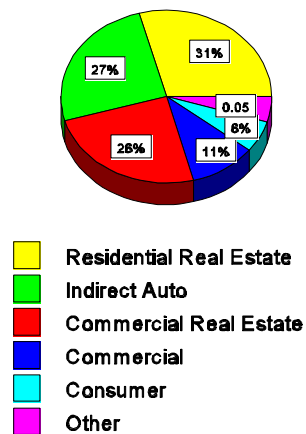
## DESCRIPTION OF INSTITUTION

Western National Bank (WNB) is located in Duluth, Minnesota. The \$87 million bank is locally owned by Western Bancorporation, Inc., a one-bank holding company. The bank's only affiliate is Premier Credit Corporation, which is a subsidiary of the bank's holding company. WNB's main office is located in the West Duluth neighborhood. The bank also has branches in downtown Duluth and Hermantown areas which offer full banking services. However, commercial loans are only originated at the West Duluth and downtown Duluth offices. In addition, the bank has an auto bank located in West Duluth. The bank's main office, downtown branch, and auto bank are located in low-income census tracts.

There are no legal or financial constraints on the bank that inhibit its CRA performance. WNB was rated "outstanding" during its last CRA examination dated September 14, 1995.

WNB's primary lending products are residential real estate, commercial real estate, and indirect auto loans. (Indirect auto loans are loans that the bank purchases from automobile dealerships.) The chart to the right reveals the distribution of the bank's \$62 million loan portfolio as of June 30, 1998. This loan volume represents 67% of the bank's total assets.

**Loan Mix**



## DESCRIPTION OF THE ASSESSMENT AREA

WNB's assessment area (AA) includes forty-two census tracts located in the southeastern portion of St. Louis County (Duluth/Superior Metropolitan Statistical Area #2240 (MSA)). The updated 1998 Median Family Income for the Duluth/Superior MSA is \$42,600. There are six low-income tracts and ten moderate-income tracts which are located in the West Duluth, downtown Duluth, and Central/East Hillside areas. There are also seventeen middle-income and nine upper-income tracts. The assessment area does not arbitrarily exclude low- or moderate-income census tracts.

The population of the assessment area is approximately 114,000. A high percentage of this population (14% of households) has incomes below the poverty level. The local economy and employment base are largely influenced by tourism, paper manufacturing, medical and energy facilities, and the shipping of grain and iron ore throughout the Great Lakes. Financial service provider competition is high in the AA with numerous other banks, savings and loans, credit unions, finance and mortgage companies providing credit services.

Examiners spoke with a local housing organization during the examination to obtain information on the housing needs of low- and moderate-income neighborhoods. In addition, examiners reviewed two recent community contacts of business development and housing organizations conducted by Federal Reserve Bank Examiners.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### *Lending to Borrowers of Different Income Levels and Businesses of Different Sizes*

The bank's distribution of loans to borrowers of different incomes and businesses of different sizes is very strong and meets or exceeds most demographic benchmarks. In particular, we found that home loan volume to borrowers with low-incomes is representative of the demographics. This is strong performance as these applicants often find it difficult to qualify for home loans due to income levels below the poverty level. Vehicle lending to this same income group is slightly less than the demographics. The bank's home and vehicle lending to moderate-income individuals shows an even stronger performance level as loan volumes are well above the demographics of the area. In addition, business lending activity shows a majority of loans originated to small businesses with annual revenues of less than \$250,000.

To arrive at these conclusions, examiners sampled loans originated to borrowers within the AA since the last CRA examination. The judgmental sample included loans from all three of the bank's primary loan products. Specifically, the sample included:

- 1) all home purchase loans (170 loans) reported in the bank's Home Mortgage Disclosure Act-Loan Application Registers;
- 2) 3% of indirect vehicle loans (67 loans) by number; and,
- 3) all commercial real estate loans (83 loans).

The table below highlights the bank's strong performance by comparing its lending volume by income levels to the demographics of the AA for both home purchase and indirect vehicle loans.

<b>Borrower Income Data</b>					
	<b>% of Loans by \$</b>		<b>% of Loans by #</b>		<b>% of Families Within Each Tract Category</b>
	<i>Home Purchase</i>	<i>Vehicle Loans</i>	<i>Home Purchase</i>	<i>Vehicle Loans</i>	
Low-Income	7%	10%	17%	13%	<b>18%</b>
Moderate-Income	21%	29%	32%	31%	<b>17%</b>
Middle-Income	17%	35%	17%	30%	<b>23%</b>
Upper-Income	56%	26%	34%	25%	<b>42%</b>

Market share data from 1996 Home Mortgage Disclosure Act-Loan Application Reports (HMDA-LAR) also provides information highlighting WNB's strong lending performance to borrowers with low and moderate incomes. Data shows that while WNB has a 3% market share of

all originated or purchased HMDA-LAR loans, it has more than twice that market share for loans to low-income borrowers at 7% and a 4% market share for loans to moderate-income borrowers.

The following chart highlights WNB's performance in originating loans to businesses of different sizes, especially small businesses. The number of commercial real estate loans originated to businesses with revenues less than \$500,000 is comparable to area demographics. The chart shows the distribution of originated commercial real estate loans by the business' revenue levels in comparison to the business demographics of the AA.

<b>Business Revenue Levels</b>			
<b>(000's)</b>	<b>% of Loans by \$</b>	<b>% of Loans by #</b>	<b>Demographics</b>
<b>\$0 to \$250</b>	46%	56%	65% *
<b>\$250+ to \$500</b>	1%	9%	
<b>\$500+ to \$1,000</b>	5%	2%	7%
<b>\$1,000+</b>	48%	33%	9%

\* The demographics noted above are compiled by Dun and Bradstreet for businesses electing to report revenue data. They do not breakout business size for revenue levels under \$500,000. And 19% of the businesses in the assessment area elected not to provide revenue data.

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

WNB's loan-to-deposit ratio is reasonable after considering comparisons to local peer banks and the nature of the bank's lending activities. Since the last CRA examination, the bank's average quarterly loan-to-deposit ratio exceeded its local peer group at 86% versus 73%. The peer group consists of seven banks in the Duluth/Superior MSA with average assets between \$50 and \$135 million.

Western National Bank also brokers a large volume of residential real estate loans which is not represented in this ratio. Since October 1, 1996, WNB brokered approximately 274 loans totaling almost \$24 million. As a broker, WNB works with applicants to compile the necessary documentation and then presents a comprehensive package to a mortgage buyer(s). The buyer makes the underwriting decision, funds the loan, and services it. WNB receives a fee for its services.

WNB's loan volume has significantly increased since its last CRA examination due to its business decision to originate out-of-area indirect vehicle loans. Gross loans increased approximately \$16 million for a growth rate of 35%.

### ***Geographic Distribution of Loans***

The bank's geographic distribution of loans is reasonable upon comparison to the demographics of the AA. The following tables provide comparative data to support this conclusion.

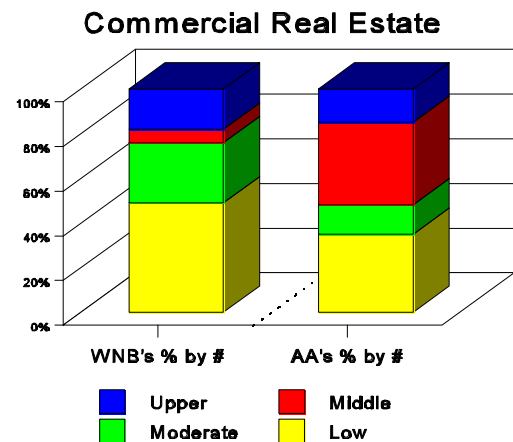
The following table highlights the percentage of indirect vehicle loans, both by dollar and number, to the percentage of AA families in each income tract category:

<b>Western National Bank's Geographic Distribution of Indirect Vehicle Loans</b>			
	% of Loans by \$	% of Loans by #	% of AA Families
Low-Income Tracts	13%	12%	<b>4%</b>
Moderate-Income Tracts	18%	16%	<b>16%</b>
Middle-Income Tracts	41%	45%	<b>50%</b>
Upper-Income Tracts	29%	27%	<b>30%</b>

The table below highlights the volume of home purchase loans, by dollar and number, in comparison to the percentage of owner-occupied units in the census tracts:

<b>Western National Bank's Geographic Distribution of Home Purchase Loans</b>			
	% of Loans by \$	% of Loans by #	% of AA Owner-Occupied Units
Low-Income Tracts	1%	3%	<b>2%</b>
Moderate-Income Tracts	9%	10%	<b>13%</b>
Middle-Income Tracts	56%	64%	<b>53%</b>
Upper-Income Tracts	33%	24%	<b>32%</b>

WNB's reasonable geographic distribution of commercial real estate loans is highlighted by this bar graph. As shown by the bar on the left, a strong majority of WNB's commercial real estate loans originated since the last CRA examination were to businesses located in low- or moderate-income census tracts. In comparison, the bar on the right displays the distribution by number of the total businesses in the AA by income tract. This comparison highlights WNB's origination of loans to businesses in low- and moderate-income areas at levels exceeding the demographics of the AA.



### ***Lending Inside the Assessment Area***

The majority of the bank's loan originations are to borrowers within the AA. Examiners reviewed originations of the bank's three major product lines from October 1995 to July 1998.

Home Purchase (primary product line): The bank originated 78% by number and 77% by dollar of its home purchase loans within its AA. During the above-mentioned time frame, the bank originated and retained 217 loans totaling \$2.8 million.

Commercial Real Estate: Our loan sample included 93 commercial real estate loans totaling approximately \$12 million. The bank originated 89% by number and 81% by dollar of these commercial real estate loans within its AA.

Indirect Vehicle: The bank originated 2,164 indirect loans totaling \$23 million from October 1995 to July 1998. Based on a sample of 9% of these loans, the bank originated 34% by number and 29% by dollar of these loans to individuals residing within the AA. This lower level is reasonable given the nature of this particular loan product and the economic environment of northeastern Minnesota. The automobile dealerships draw customers from a very wide area, much of which is outside of the bank's AA.

### ***Response to CRA Related Complaints***

Western National Bank has not received any CRA-related complaints since our last examination.

### ***Services and Other Delivery Systems for Credit Availability***

The bank also provides the following service not previously discussed. This service further demonstrates WNB's commitment to meeting the credit needs of its AA.

WNB has twice acted as a conduit for the Federal Home Loan Bank's Affordable Housing Program (AHP). Through this program, WNB applied for AHP grants on behalf of two community development projects. Through WNB's efforts, two local affordable housing projects received such grants, in the amounts of \$45,000 and \$25,000.

### ***Qualified Investments***

The bank purchased and holds one qualified investment for \$132 thousand. The purpose of the investment is to fund the renovation of an affordable apartment complex in the AA. While this investment does not, in-and-of itself, substantially enhance WNB's overall performance, it does demonstrate the bank's commitment to pursuing various means to meet the credit needs of its AA.

### ***Compliance with Antidiscrimination Laws***

No violations of the substantive provisions of antidiscrimination laws and regulations on the basis of gender were identified. Examiners reviewed a sample of home loans and indirect vehicle loans.

### **Source and Validation of Geographic and Income/Revenue Data**

Home Purchase Loans: Examiners relied upon the bank's Home Mortgage Disclosure Act Loan Application Register. Examiners reviewed approximately 20% of the AA home purchase loans for report accuracy and determined that the report was reliable through comparison with the loan files and information obtained from an Internet geocode program.

Vehicle Loans: Examiners used a bank-generated report for the geographic data and loan files for income information. Examiners determined that the bank report was reliable through verification of approximately one-third of the loans reported to be within the AA using an Internet geocode program.

Commercial Real Estate Loans: Examiners used a bank-generated report for the geographic data. Examiners determined that the report was reliable through verification of approximately 15% of the loans reported to be within the AA using an Internet geocode program. Examiners reviewed all loan files for business revenue information.