



PUBLIC DISCLOSURE

February 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples National Bank of Mora
Charter Number 15161**

**45 North Union Street
Mora, Minnesota 55051**

**Office of the Comptroller of the Currency
Duluth Field Office
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 **Peoples National Bank of Mora** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of February 1, 1999. 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***.

The bank is reasonably extending credit to borrowers of different incomes and to businesses of different sizes.

The bank originates a majority of its loans within its designated assessment area and meets the consumer and home purchase credit needs of low- and moderate-income borrowers.

DESCRIPTION OF THE INSTITUTION

Peoples National Bank of Mora is a \$127 million full-service financial institution in Mora, Minnesota that is approximately 70 miles north of the Minneapolis / St. Paul area. In addition to its main office, the bank has a branch office and two automated teller machines in Mora. The bank has two small branches located in the cities of Aitkin, Minnesota and Crosby, Minnesota. Both cities are located approximately 70 miles north of Mora. Peoples National Bank is a subsidiary of Peoples Bankshares, Inc., which is a one bank holding company. The bank received a Satisfactory rating during its last CRA evaluation dated February 5, 1997. No financial or legal impediments limit the bank's ability to meet the credit needs within its assessment area.

Peoples National Bank offers traditional lending and deposit services at all four of its locations. Per the bank's Consolidated Report of Condition dated December 31, 1998, the bank has a \$72 million net loan portfolio that represents 57% of its total assets. The bank's primary lending niche is in commercial loans which represent 42% of the total loan portfolio. Additional major product lines include 1-4 family residential real estate loans (25% of total loans) and general consumer purpose loans (12% of total loans). The bank also provides its customers access to secondary market 1-4 family real estate loans that are not reflected in these percentages.

During 1997 and 1998, the bank originated 5341 loans totaling more than \$100 million. Of these originations, commercial loan originations represented 34% by dollar volume and 15% by number. Residential real estate purchase and construction originations represented 15% by dollar volume and 6% by number. Consumer loan originations represented 17% by dollar volume and 63% by number.

DESCRIPTION OF THE ASSESSMENT AREA

Peoples National Bank of Mora's assessment area consists of 22 Block Numbering Areas (BNAs) that covers five counties. It includes all of Kanabec County (BNAs 9801 thru 9804), the southwest corner of Pine County (BNAs 9505 and 9508), the north half of Mille Lacs County (BNAs 9701 thru 9703), the south half of Aitkin County (BNAs 9904 thru 9909) and the east half of Crow Wing County (BNAs 9503, 9506 thru 9508, 9515, and 9516). The bank added the northern portion of Mille Lacs County to its assessment area in June 1998.

The assessment area contains seven moderate-income BNAs and fifteen middle-income BNAs. Six of the moderate-income BNAs are adjacent in Aitkin and Mille Lacs counties and are served by the Aitkin branch. The seventh moderate-income BNA is in Crow Wing County and is served by the Crosby branch. The assessment area meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income geographies.

The bank's assessment area has a significant amount of rural and wilderness areas and numerous small towns and cities. The area has a large number of vacation homes and lake cabins which is why 47% of the housing stock is officially considered vacant.

The 1998 statewide nonmetropolitan median family income is \$40,500. The percentage of families in the assessment area considered low- (24%), moderate- (22%), middle- (24%), and upper-income (30%) is evenly distributed. In addition, 17% of the households in the bank's assessment area have incomes that are below the poverty level.

Mora is the Kanabec County seat and its economic base is influenced by manufacturing, retail, service, county government, and medical industries. Based on community contacts, the typical unemployment rate is historically high for the Mora area and approximately 25% to 30% of the Mora area residents commute to the Minneapolis area for employment. Tourism from the many nearby lakes heavily supports the Aitkin and Crosby communities. Aitkin is also the Aitkin County seat.

There are several community banks and credit unions that compete in the bank's assessment area. Their total asset sizes range from \$25 million to \$106 million. There are also branches of large regional banks that compete in the bank's market area. These lending institutions provide strong competition for loans and deposits.

The identified credit needs in the bank's assessment area are for small business, residential real estate, and general-purpose consumer loans. The examiner affirmed these credit needs through community contacts with a trade association and an economic development organization in Mora. The credit needs were also consistent with the findings of other recent examiner community contacts in the Aitkin and Crosby communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending in the Assessment Area

The majority of loans made since the bank's last CRA evaluation have been originated within the assessment area. Examiners reviewed a judgmental sample of commercial loans, home purchase or construction loans and consumer loans, which were originated between December 31, 1997 and December 31, 1998. These credit types represent the bank's three major product lines.

A review of commercial loan originations showed that 86% by number and 68% by dollar volume were originated in the bank's assessment area. The commercial loan sample included eighty-four borrowers with loan originations that totaled \$15 million. The sample represented 25% of the number of borrowers with loan originations, and 44% of the dollar volume of loan originations between December 31, 1997 and December 31, 1998.

A review of residential real estate purchase or construction loans showed that 79% by number and 75% by dollar volume were originated in the bank's assessment area. The sample included ninety-four borrowers with loan originations that totaled \$6 million. The sample represented virtually all home loans made between December 31, 1997 and December 31, 1998 that were not sold on the secondary market.

A review of consumer loan originations showed that 81% by number and 77% by dollar volume were originated within the bank's assessment area. The consumer loan sample included ninety borrowers with loan originations that totaled \$703 thousand. The sample represented 5% of the number of borrowers with loan originations, and 4% of the dollar volume of originations during the review period.

The samples identified above were also used to assess performance throughout this CRA evaluation.

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

The bank's lending in its primary product lines is reasonably distributed to borrowers of different incomes and businesses of different sizes.

Businesses of Different Sizes

As previously mentioned, the bank's primary product line is commercial loans. As the following chart shows, most of the bank's commercial loan originations are to small businesses. This is consistent with the demographic makeup of the business community within the assessment area.

Business Revenues	Loans by #	Loans by \$	Business Demographics
< 0.5 Million	75%	47%	85%
0.5 - 0.99 Million	9%	18%	6%
+ 1 Million	16%	35%	9%

Sample characteristics: Refer to the Lending in Assessment Area section.
Business demographics are from 1998 data provided by Dunn & Bradstreet.

Borrowers of Different Income Levels

The bank is doing a good job of providing residential real estate and consumer credit to families with low- and moderate-incomes. As noted in the following chart, the bank's loan origination patterns by number greatly exceeds the demographics in the low-income category. Loan originations by dollar are consistent with area demographics.

**Home Purchase &
Construction Loans** **Consumer Loans**

Census Income Category	%Lns by #	%Lns by \$	%Lns by #	%Lns by \$	% Families
Low:	24%	16%	58%	31%	24%
Moderate:	28%	25%	22%	31%	22%
Middle:	23%	22%	16%	22%	24%
Upper:	25%	37%	4%	16%	30%

Sample characteristics: Refer to the Lending in Assessment Area section for details.

Geographic Distribution of Loans

The geographic distribution of the bank's loan originations is reasonable. The bank's volume of loan originations to borrowers in moderate-income BNAs appears low in the following charts. However, the low loan penetration can be explained by the following factors:

- C The bank has no facilities located in the moderate-income BNAs. As a result, it is difficult for the bank to compete with the financial institutions that have main offices and branch locations in those moderate-income BNAs.
- C The Aitkin and Crosby branches are closest to the moderate-income BNAs, but they have only a small presences in their markets with total assets of \$6 million and \$8 million, respectively. The total assets of their competitors range from \$25 million to over \$100 million.
- C The majority of the bank's originations, 87% by number and 84% by dollar volume, have been at the main office. This distribution is consistent with 89% of total assets attributed to the Mora locations. Middle-income BNAs surround the main office.

Commercial Loan Originations

Income Level in BNAs	Loans by #	Loans by \$	Business Population
Moderate	13%	9%	25%
Middle	87%	91%	75%

Sample characteristics: Refer to the Lending in Assessment Area for details.

Home Purchase & Construction Loans

Consumer Loans

Income Level in BNAs	%Lns by #	%Lns by \$	Occupied Housing Units in BNAs	%Lns by #	%Lns by \$	Families in BNAs
Moderate	7%	6%	18%	8%	6%	22%
Middle	93%	94%	82%	89%	95%	78%

Sample characteristics: Refer to the Lending in Assessment Area section for details.

To ensure that the bank originates loans to borrowers in moderate-income BNAs, examiners reviewed virtually all consumer loan files maintained at the Aitkin branch. This branch was targeted as it serves six moderate-income BNAs. This sample included 26 consumer loan originations totaling \$165 thousand. Through this expanded review, examiners concluded that the bank reasonably extends consumer credit to borrowers located in moderate-income BNAs. The distribution of Aitkin branch lending revealed that 35% of originations by number and 26% by dollar volume were made to borrowers in moderate-income BNAs surrounding Aitkin.

Loan to Deposit Ratio

Peoples National Bank's loan to deposit ratio is reasonable. As of December 31, 1998, the bank had a loan to deposit ratio of 66%. The bank has an average quarterly loan to deposit ratio of 59% since its last CRA Public Evaluation on February 5, 1997. Although this ratio is less than the 68% average quarterly loan to deposit ratio for similarly situated banks in the assessment area, the trend is positive. Of the similarly situated banks, the loan to deposit ratios ranged from 47% to 98%.

The bank's loan to deposit ratio was affected when the bank acquired approximately \$26 million in deposits from branch acquisitions in 1995. Since those acquisitions, the loan to deposit ratio has continually increased from loan growth of approximately \$19 million.

Response to CRA Related Complaints

The bank has not received any CRA related complaints since its last CRA evaluation.

Compliance with Antidiscrimination Laws and Regulations

Examiners did not identify any violations of substantive provisions of antidiscrimination laws and regulations. The examiners conducted a comparative fair lending review. The review compared the treatment of six denied female applicants to twenty-five approved individual male applicants for loan applications for used automobile loans.