



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**January 18, 2005**

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

**First National Bank in Mahnommen  
Charter Number 12941**

**103 North Main St  
Mahnommen, MN 56557**

**Comptroller of the Currency  
North Dakota & NW Minnesota  
3211 Fiechtner Drive, SW  
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.**

## GENERAL INFORMATION

**Institution's CRA Rating:** First National Bank in Mahnomen is rated Satisfactory. An institution of this group has a satisfactory record of helping to meet the credit needs of the assessment area it serves. The following factors highlight the bank's performance:

- The bank's Loan to Deposit (LTD) ratio meets the standard for satisfactory performance given the bank's size and financial condition, local economic factors, and lending opportunities within its assessment area.
- The bank's lending within the AA meets the standard for satisfactory performance. A substantial majority of its loans are made within the AA.
- The bank's borrower distribution of loans throughout the AA meets the standard for satisfactory performance.

### Description of Institution

The First National Bank in Mahnomen (FNB) is a \$52 million bank in northwestern Minnesota in Mahnomen County. The bank is 100% owned by Mahnomen Bancshares, a one-bank holding company. FNB is located in the city of Mahnomen, which is also the county seat. FNB has a main branch location and an ATM on the premises. The bank also maintains a drive-up teller window.

FNB is a full service, intrastate institution offering traditional loan and deposit products and services. Total loans as of September 30, 2004 are \$34,509M. The following illustrates the bank's loan mix:

<b>Loan Portfolio Composition 09/30</b>	<b>\$ (000)</b>	<b>%</b>
Business Loans	15,302	44
Residential Real Estate Loans	9,226	27
Farm Loans	5,601	16
Consumer Loans	4,380	13
<b>Total</b>	<b>34,509</b>	<b>100</b>

Primary competition in the assessment area (AA) includes seven banks located in, or near, the bank's AA. There are no legal or financial factors impeding FNB's ability to help meet the credit needs of the community. The bank was rated "Satisfactory" at the last CRA examination, July 19, 1999.

### Description of FNB's Assessment Area

FNB's AA includes all of Mahnomen County and portions of Norman and Becker Counties. The area consists of four contiguous Census Tracts (CTs). Cities in the assessment area include Mahnomen, Twin Valley, Waubun, Ogema, and Gary. Population of the area is approximately

11,944 and stable.

The area median family income is \$53,000. The assessment area consists of two moderate- and two middle-income CTs. Family incomes within the assessment area are: 27% low, 24% moderate, 26% middle, 23% upper income. Approximately 16% of the population is below the poverty level. The assessment area complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income families.

The bank's AA is predominant in agriculture related businesses. Another major influence to the economy in the AA is the Shooting Star Casino located in the city of Mahanomen. This casino is the major employer in the area, and provides stabilization to the local economy. The casino has stimulated a modest level of business growth and aided main street business.

FNB's AA includes the White Earth Indian Reservation. The White Earth Tribal Trust owns large tracts of land on the reservation. Individual members of the reservation are not able to hold title to trust land but can obtain use rights for residential sites and other purposes. As a result, FNB cannot perfect liens on trust-owned real estate and lending in the AA is therefore limited. FNB continues to work with the tribal council and reservation members to help meet their credit needs.

During our evaluation we contacted a local community organization to better understand the AA demographics and to determine the primary credit needs of the AA. The top credit need of the AA continues to be business related loans.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	3,149
Number of Households	4,461
Number of Low-Income Families	857
% of Low-Income Families	27.21%
Number of Moderate-Income Families	739
% of Moderate-Income Families	23.47%
Number of Middle-Income Families	819
% of Middle-Income Families	26.01%
Number of Upper-Income Families	734
% of Upper-Income Families	23.31%
<i>Geographies</i>	
Number of Census Tracts	4
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	50%
% Middle-Income Census Tracts	50%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2004 MFI for AA	53,000
<i>Economic Indicators</i>	
Unemployment Rate	5.8%
% of Households Below Poverty Level	16%

### **Loan Sampling**

We determined the primary areas of lending in the bank are residential real estate and business loans. Business loans maintain the highest percentage of loan volume and will be given the greater weight in determining the overall rating. We used outstanding balances of loans originated in 2003 and 2004 to determine the areas of lending we would include in our sample. Based on the information, \$22.3MM in current loan balances were originated in 2003 and 2004. Business loans account for 47% and residential real estate loans account for 26% of this balance. The loan sample for this review included 20 credits in the AA for the bank's main lending products (business and residential real estate credits). Our sample included credits that continue to maintain a balance, but was otherwise obtained purely at random.

### **Conclusions about Performance Criteria**

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

FNB's loan-to-deposit is reasonable given the bank's size, financial condition, and lending opportunities within the AA. Since the fourth quarter of 1999, the bank's LTD ratio increased from 55% to 74% as of the 3<sup>rd</sup> quarter in 2004, with a large increase noted in the 2<sup>nd</sup> quarter of 2004. Since the last CRA exam, the bank's average quarterly loan-to-deposit ratio increased from 58% to 62%. The following chart shows the bank's loan-to-deposit ratio in relation to similarly

situated lending institutions in the local market:

<b>Institution</b>	<b>Assets (as of 9/30/04)</b>	<b>Average LTD Ratio</b>
Gary State Bank	10,313	94.32
Red River State Bank	30,888	87.36
Rural America Bank – Ada, MN	35,788	78.78
State Bank of Lake Park	24,964	69.11
<b>First National Bank in Mahanomen</b>	<b>52,675</b>	<b>62.23</b>
First State Bank of Audubon	10,924	59.58
First Financial Bank of Twin Valley	12,691	49.37

Source: Consolidated Reports of Condition for the evaluation period.

### **Lending in Assessment Area**

FNB’s lending in the AA meets the standard for satisfactory performance. FNB originates a majority of its loans within its AA. The following table outlines the bank’s performance in this area:

<b>TOTAL LOANS REVIEWED</b>								
	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
<b>LOAN TYPE</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Commercial	16	80	1,029	79	4	20	273	21
1-4 Family Residential RE	18	90	815	88	2	10	115	12
Total Reviewed	34	85	1,844	83	6	15	388	17

Source: Loan sample

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

FNB’s lending to borrowers of different income levels and to businesses of different sizes meets the standard for satisfactory performance.

#### Business Loans

FNB’s lending to businesses of different sizes is reasonable. The number of bank loans made to businesses with annual revenues of \$1 million or less meets the demographics of the AA. The dollar amount of these loans lags the demographics. This is due to a few large loans made to businesses with revenues over \$1 million.

<b>Borrower Distribution of Businesses Loans</b>
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Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.30%	4.39%	25.31%	100%
% of Bank Loans in AA by #	70%	20%	10%	100%
% of Bank Loans in AA by \$	43%	55%	2%	100%

Source: Loan sample; 2000 U.S. Census data

### Residential Real Estate Loans

FNB's lending to borrowers of different income levels is more than reasonable. Lending to low-income families is near to the demographics and lending to moderate-income families exceeds the demographics.

<b>Borrower Distribution of Residential Real Estate Loans</b>				
Borrower Income Level	LOW	MODERATE	MIDDLE	UPPER
% of AA Families	27.2	23.5	26.0	23.3
% of Number of Loans	25	40	25	10

Source: Loan sample; 2000 U.S. Census data

### **Geographic Distribution of Loans**

FNB's geographic distribution of loans does not meet the standard for satisfactory performance. While FNB's performance is less than satisfactory, the weighting of this performance element in assessing the bank's overall CRA performance is limited due to two factors. First, the bank's moderate-income tracts are located in the White Earth Reservation. This limits lending opportunities as the White Earth Tribe owns some of this land and does not ordinarily seek financing. Secondly, the bank is located in a middle-income tract and the largest city in the AA, Mahanomen, is in this tract. The outer areas of the bank's AA, including the moderate-income tracts, are served by other financial institutions. This competition makes it difficult for the bank to lend in some portions of its moderate-income tracts.

### Business Loans

FNB's geographic distribution of business lending is less than reasonable. The bank's lending to businesses located in moderate-income tracts does not meet the demographics of the AA. The following table illustrates the bank's performance.

<b>Geographic Distribution of Business Loans</b>				
Census Tract Income Level	LOW	MODERATE	MIDDLE	UPPER
% of AA Businesses	0%	28.12%	71.88%	0%
% of Number of Loans	0%	15%	85%	0%

Source: Loan sample; 2000 U.S. Census data

## Residential Real Estate Loans

FNB's geographic distribution of residential real estate loans is less than reasonable. Lending in the moderate-income tracts is well below the percentage of owner occupied housing located in these tracts. However, it is noted that 21% of the households in the moderate-tracts are below the poverty level and would likely not qualify for a real estate loan.

<b>Geographic Distribution of Residential Real Estate Loans</b>				
Census Tract Income Level	LOW	MODERATE	MIDDLE	UPPER
% of AA Owner Occupied	0%	47.33%	52.67%	0%
% of Number of Loans	0%	20%	80%	0%

Source: Loan sample; 2000 U.S. Census data

## **Responses to Complaints**

We did not note any complaints in the bank's consumer complaint file since the last exam.

## **Fair Lending or Other Illegal Credit Practices Review**

During our examination, we found no evidence of illegal discrimination or other illegal credit practices.