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**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**November 17, 2006**

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

**The First National Bank of Gilbert  
Charter Number 9262**

**2 North Broadway  
Gilbert, MN 55741**

**Comptroller of the Currency  
Minneapolis North Field Office  
920 Second Avenue South, Suite 800  
Minneapolis, Minnesota 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 Outstanding.**

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a substantial majority of its loans by number and dollar within its assessment area.
- The bank has an excellent distribution of consumer and residential real estate loans to borrowers of different income levels.
- Geographic distributions of loans reflect a good dispersion of consumer and residential real estate loans throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

FNB Gilbert is an independently owned \$25 million commercial bank. The bank's only office is a full-service facility located in downtown Gilbert, Minnesota. The city of Gilbert, which has a population of approximately 4,000 people, is located in northeastern Minnesota and is part of the region known as the "Iron Range". The bank is affiliated with The Miners National Bank of Eveleth in Eveleth, Minnesota through common ownership.

FNB Gilbert's primary market niche is residential real estate and various consumer lending. According to its September 30, 2006 Report of Condition and Income, the bank has the following outstanding loans by dollar volume: residential real estate (62 percent), consumer (28 percent), and commercial (10 percent). Net loans represent 57 percent of total assets.

There are no legal or financial constraints on the bank that inhibit its ability to meet the credit needs in its assessment area. FNB Gilbert was previously rated "Satisfactory" at its last CRA examination dated July 29, 2002. This Performance Evaluation assesses the bank's CRA activities from September 30, 2002 through September 30, 2006.

## **DESCRIPTION OF THE ASSESSMENT AREA**

FNB Gilbert's assessment area (AA) includes 29 census tracts located in the central portion of St. Louis County, Minnesota. St. Louis County is included in the Duluth, MN-WI Metropolitan Statistical Area (MSA) #20260. According to 2000 U.S. Census Data, the total population for the AA is 90,701 persons. The 2000 U.S. Census Median Family Income (MFI) for the AA is \$35,980, while The Department of Housing and Urban Development's 2006 estimated MFI for the AA is \$55,700. The following table summarizes the income levels of individual census tracts and families located within the bank's AA:

| <b>Income Distribution of Geographies and Families</b> |          |          |        |                        |          |        |       |
|--|----------|----------|--------|------------------------|----------|--------|-------|
| Number of Census Tracts                                |          |          |        | Percentage of Families |          |        |       |
| Low  | Moderate | Middle   | Upper  | Low                    | Moderate | Middle | Upper |
| 0 (0%)   | 6 (21%)  | 21 (72%) | 2 (7%) | 0%                     | 17%      | 73%    | 10%   |

Of the 29 census tracts included in the assessment area, none are designated as low-income. Six census tracts, including the cities of Babbitt, Eveleth, Ely, and sections of Hibbing are designated as moderate-income with 17 percent of the households in the assessment area residing in these tracts. The remaining tracts consist of twenty-one middle-income tracts and two upper-income tracts. The assessment area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The major industry in the assessment area is taconite mining and its related industries. The taconite mining industry has and continues to experience financial difficulties. Job losses have stabilized in the immediate area since the bank’s last CRA examination. Unemployment in St. Louis County is 4.2 percent as of October 31, 2006 compared to 4.8 percent at the last CRA examination, higher than the state average of 3.3 percent yet comparable to the national average of 4.1 percent. To help examiners better understand the performance context of the assessment area, they met with a local real estate broker and appraiser during the course of their work. This community contact views the current economic conditions of the area as stable, yet optimistic. According to the contact, the demand for taconite is high and the mines are working at full capacity. The contact also stated that housing prices in the area are stable. The contact did not identify any unmet credit needs in the AA. This information is consistent with the data collected by this and other regulatory agencies during discussions with two other community contacts completed since FNB Gilbert’s last CRA examination.

Competition from other financial institutions in the assessment area is strong. There are 24 financial institutions operating in St. Louis County. Many of these institutions primarily operate within the southern portion of the county, within and near the city of Duluth and have branches in the AA. Of the six community banks operating primarily in the assessment area, FNB Gilbert ranks fifth in both asset size and deposit market share (less than one percent).

**CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

**Loan-to-Deposit Ratio**

FNB Gilbert’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s quarterly net loan-to-deposit ratio averaged 65.01 percent over the 17 quarters from September 30, 2002 to September 30, 2006.

FNB Gilbert’s net loan-to-deposit ratio is comparable to the five other banks of similar size in the assessment area. (Banks of less than \$50 million in total assets as of September 30, 2006 are considered to be of similar size.) Over the time period noted above, the five other banks had a quarterly net loan-to-deposit ratio average of 70.6 percent. FNB Gilbert ranked fourth among all

six banks but was one of four with very similar ratios. The two outliers reported a high ratio of 98.2 percent and a low ratio of 54.5 percent.

### Lending in Assessment Area

FNB Gilbert originates a substantial majority of its loans to borrowers located within its defined assessment area. Based on a sample of 20 residential real estate loans and 20 consumer loans originated between January 1, 2004 and September 30, 2006, the bank originated 95 percent by number and 99 percent by dollar amount of its loans within its assessment area. The following table shows loans originated inside the assessment area by number and dollar amount:

| <b>Lending in Assessment Area by Number and Dollar Amount</b> |           |                   |                    |                    |
|---|-----------|-------------------|--------------------|--------------------|
| Type of Loan  | Number    | Percent of Number | Dollars            | Percent of Dollars |
| Residential Real Estate                                       | 20        | 100%              | \$1,066,304        | 100%               |
| Consumer  | 18        | 90%               | \$106,240          | 89%                |
| <b>Total</b>  | <b>38</b> | <b>95%</b>        | <b>\$1,172,544</b> | <b>99%</b>         |

Source: Bank records (verified by examiners)

### Lending to Borrowers of Different Incomes

FNB Gilbert has an excellent distribution of credit among real estate borrowers of different income levels. The following table compares the actual percentage of families based on income level located within the assessment area to loans made by the bank from the selected loan sample of 20 residential real estate loans, originated between January 1, 2004 and September 30, 2006. The sample indicated that 25% of the loans were made to moderate-income families. This compares favorably to the 19% of families in the area in the moderate-income level. The sample also indicated that 5% of loans were made to low-income families. While this is less than the 19% in the assessment, this is still a reasonable percentage considering that 7% of the families in the assessment area are below poverty level. People living below the poverty level are less likely to qualify for home loans under standard underwriting criteria or to afford the purchase price of a home in this assessment area.

| <b>Borrower Distribution of Residential Real Estate Loans by Income Level</b> |        |                   |  |
|---|--------|-------------------|--|
| Borrower Income Level   | Number | Percent of Number | Percent of Families in Assessment Area |
| Low   | 1      | 5%                | 19%                                    |
| Moderate  | 5      | 25%               | 19%                                    |
| Middle  | 8      | 40%               | 25%                                    |
| Upper   | 6      | 30%               | 37%                                    |
| Totals  | 20     | 100%              | 100%                                   |

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

Consumer lending activity in the assessment area substantially exceeds the community demographics for both low- and moderate-income borrowers. Examiners sampled 20 of these loans, to borrowers within the assessment area, originated between January 1, 2004 and September 30, 2006. The following table compares the bank's consumer lending activity by borrower income level to the assessment area demographics:

| <b>Borrower Distribution of Consumer Loans by Income Level</b> |        |                   |  |
|--|--------|-------------------|--|
| Borrower Income Level  | Number | Percent of Number | Percent of Households in Assessment Area |
| Low  | 8      | 40%               | 24%                                      |
| Moderate   | 5      | 25%               | 16%                                      |
| Middle   | 5      | 25%               | 19%                                      |
| Upper  | 2      | 10%               | 41%                                      |
| Totals   | 20     | 100%              | 100%                                     |

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

### **Geographic Distribution of Loans**

Geographic distributions of loans reflect a good dispersion of consumer and residential real estate loans throughout the assessment area. To make this assessment, examiners sampled 40 loans (20 residential real estate and 20 consumer) to borrowers in the assessment area originated between January 1, 2004 and September 30, 2006. The assessment area did not contain any low income census tracts and our sample did not include any loans for residents of an upper income census tract. Residential real estate and consumer loan distribution is compared with the demographics of the assessment area in the following tables:

| <b>Geographic Distribution of Residential Real Estate Loans by Income Level</b> |        |                   |               |                   |   |
|---|--------|-------------------|---------------|-------------------|---|
| Census Tract Income Level   | Number | Percent of Number | Dollar Amount | Percent of Amount | Percent of Owner-Occupied Homes by Tract Category |
| Low   | 0      | 0%                | \$0           | 0%                | 0%  |
| Moderate  | 4      | 20%               | \$150,307     | 14%               | 17%   |
| Middle  | 16     | 80%               | \$915,997     | 86%               | 73%   |
| Upper   | 0      | 0%                |               | 0%                | 10%   |
| Totals  | 20     | 100%              | \$1,066,304   | 100%              | 100%  |

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

| <b>Geographic Distribution of Consumer Loans by Income Level</b> |        |                   |               |                   |   |
|--|--------|-------------------|---------------|-------------------|---|
| Census Tract Income Level  | Number | Percent of Number | Dollar Amount | Percent of Amount | Percent of Households by Tract Category |
| Low  | 0      | 0%                | \$0           | 0%                | 0%                                      |
| Moderate   | 8      | 40%               | \$51,835      | 41%               | 21%                                     |
| Middle   | 12     | 60%               | \$73,435      | 59%               | 72%                                     |
| Upper  | 0      | 0%                | \$0           | 0%                | 7%                                      |
| Totals   | 20     | 100%              | \$125,270     | 100%              | 100%                                    |

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

We did not identify any specific gaps in the bank's lending patterns for residential real estate or consumer loans.

### **Responses to Complaints**

FNB Gilbert has not received any CRA-related complaints since the last CRA examination.

### **Fair Lending Review**

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