



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**July 29, 2002**

### **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, 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.**

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## **INSTITUTION'S CRA RATING**

**This institution is rated "Satisfactory."**

The First National Bank of Gilbert (FNB Gilbert) is satisfactorily meeting the credit needs of its assessment area. This has best been demonstrated by:

- Satisfactory loan volume, as evidenced by a quarterly average loan-to-deposit ratio that is comparable to other local banks of similar size.
- Strong distribution of loans to borrowers of various incomes, especially those with low- and moderate-incomes.
- Origination of a significant majority of loans within the assessment area.
- Reasonable geographic distribution of loans throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

FNB Gilbert is an independently owned \$22 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 March 31, 2002 Report of Condition and Income, the bank has the following outstanding loans by dollar volume: residential real estate (60 percent), consumer (26 percent), and commercial (14 percent). Net loans represent 59 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 February 17, 1998. This Performance Evaluation assesses the bank's CRA activities from March 31, 1998 through March 31, 2002.

## DESCRIPTION OF THE ASSESSMENT AREA

FNB Gilbert's assessment area includes 26 census tracts located in the central portion of St. Louis County, Minnesota. St. Louis County is included in the Duluth-Superior, MN-WI Metropolitan Area (MA) #2240. According to 1990 U.S. Census Data, the total population for the assessment area is 71,010 persons. The 1990 U.S. Census Median Family Income (MFI) for the MA is \$30,561, while The Department of Housing and Urban Development's 2002 estimated MFI for the MA is \$50,800. The following table summarizes the income levels of individual census tracts and families located within the bank's assessment area:

Income Distribution of Geographies and Families							
Number of Census Tracts				Percentage of Families			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
1 (4%)	4 (15%)	21 (81%)	0 (0%)	20%	19%	24%	37%

Of the 26 census tracts included in the assessment area, one tract is designated as low-income. This tract is the city of Franklin, which includes only 13 households, or less than one-tenth of one percent of the total population of the assessment area. Four census tracts, including the cities of Babbitt, Buhl, Kinney, and sections of Virginia and Hibbing are designated as moderate-income with 12 percent of the households in the assessment area residing in these tracts. The remaining 21 tracts are middle-income. 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. Substantial job loss has occurred in the immediate area since the bank's last CRA examination. Recouping these lost jobs in the near future appears unlikely. Unemployment in St. Louis County is 4.8 percent as of June 30, 2002, higher than the state average of 4.0 percent yet well below the national average of 5.9 percent. To help examiners better understand the performance context of the assessment area, they met with a local real estate broker and a local appraiser during the course of their work. These community contacts view the current economic conditions of the area as unstable, yet optimistic. According to the contacts, the arrival of new businesses such as Northwest Airlines, Blue Cross/Blue Shield, Entronix, and Sykes to the Iron Range has helped keep the unemployment rate low. The contacts also stated that housing prices in the area continue to increase, primarily due to the current low interest rate environment. The contacts knew of no unmet credit needs in the assessment area. This information is consistent with the data collected by this and other regulatory agencies during discussions with 3 other community contacts completed since FNB Gilbert's last CRA examination.

Competition from other financial institutions in the assessment area is strong. There are 28 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 assessment area. 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 70.4 percent over the 17 quarters from March 31, 1998 to March 31, 2002.

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 \$55 million in total assets are considered of similar size.) Over the time period noted above, the five other banks had a quarterly net loan-to-deposit ratio average of 68.2 percent. FNB Gilbert ranked second among all six banks; although FNB Gilbert was one of four with very similar ratios. The two outliers reported a high ratio of 85.3 percent and a low ratio of 54.2 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 April 1, 1998 and March 31, 2002, 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%	\$837,325	100%
Consumer	18	90%	\$121,536	91%
<b>Total</b>	<b>38</b>	<b>95%</b>	<b>\$958,861</b>	<b>99%</b>

Source: Bank records (verified by examiners)

### Lending to Borrowers of Different Incomes

The bank's distribution of loans to borrowers of different incomes is strong. Specifically, performance in the primary product lines of residential real estate and consumer lending meets or exceeds the area's demographics for lending to borrowers with low and moderate incomes.

Residential real estate lending in the assessment area exceeds the demographics for low-income borrowers and meets the demographics for moderate-income borrowers. FNB Gilbert originated 258 residential real estate loans between April 1, 1998 and March 31, 2002. Examiners sampled 20 of these loans, all to borrowers within the assessment area, originated between January 1, 2000 and March 31, 2002. The following table compares the bank's residential real estate lending activity by borrower income to assessment area demographics:

<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
<b>Low</b>	<b>5</b>	<b>25%</b>	<b>20%</b>
<b>Moderate</b>	<b>3</b>	<b>15%</b>	<b>19%</b>
Middle	6	30%	24%
Upper	6	30%	37%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Consumer lending activity in the assessment area substantially exceeds the community demographics for both low- and moderate-income borrowers. FNB Gilbert originated 1,884 consumer loans between April 1, 1998 and March 31, 2002. Examiners sampled 20 of these loans, to borrowers within the assessment area, originated between January 1, 2000 and March 31, 2002. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

<b>Borrower Distribution of Consumer Loans by Income Level</b>			
Borrower Income Level	Number	Percent of Number	Percent of Households in Assessment Area
<b>Low</b>	<b>8</b>	<b>40%</b>	<b>27%</b>
<b>Moderate</b>	<b>7</b>	<b>35%</b>	<b>15%</b>
Middle	5	25%	16%
Upper	0	0%	42%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

### **Geographic Distribution of Loans**

The geographic distribution of loans in the bank's assessment area is reasonable. 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, 2000 and March 31, 2002. Residential real estate and consumer loan distribution in the low- and moderate-income census tracts is consistent with the demographics of the assessment area, as shown 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
<b>Low</b>	<b>0</b>	<b>0%</b>	<b>\$0</b>	<b>0%</b>	<b>0%</b>
<b>Moderate</b>	<b>3</b>	<b>15%</b>	<b>\$85,691</b>	<b>10%</b>	<b>11%</b>
Middle	17	85%	\$800,941	90%	89%
Upper	0	0%	\$0	0%	0%
Totals	20	100%	\$886,632	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

<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
<b>Low</b>	<b>0</b>	<b>0%</b>	<b>\$0</b>	<b>0%</b>	<b>0%</b>
<b>Moderate</b>	<b>2</b>	<b>10%</b>	<b>\$6,471</b>	<b>4%</b>	<b>12%</b>
Middle	18	90%	\$142,878	96%	88%
Upper	0	0%	\$0	0%	0%
Totals	20	100%	\$149,349	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

We did not identify any specific gaps in the bank's lending patterns for residential real estate or consumer loans. The bank's lack of penetration in the sample to borrowers residing in the one low-income tract is not a concern. This is due to the extremely few owner-occupied housing units (11) and households (13) located in that tract.

### **Responses to Complaints**

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

### **Fair Lending Review**

An analysis of 1999, 2000, and 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1998.