



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 6, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of McIntosh
Charter Number 6488**

**260 Cleveland Avenue Southwest
McIntosh, Minnesota 56556**

**Office of the Comptroller of the Currency
Alexandria Duty Station
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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 **The First National Bank of McIntosh** prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 6, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

The First National Bank of McIntosh's rating is based on the following factors:

- ◆ The bank's record of extending credit to businesses of different sizes and to borrowers of different income levels is good.
- ◆ A majority of the loans are extended in the bank's assessment area.
- ◆ The bank's loan-to-deposit ratio is reasonable.

The following table indicates the performance level of *The First National Bank of McIntosh* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FIRST NATIONAL BANK OF MCINTOSH PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		x	
Lending in Assessment Area		x	
Lending to Borrowers of Different Incomes and to businesses of Different sizes	x		
Geographic Distribution of Loans	Analysis not meaningful.		
Response to Complaints	No complaints have been received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of McIntosh (FNB) is a \$19.7 million bank located in north western Minnesota. FNB is located in the city of McIntosh which is located in east Polk County. FNB has no branches or automated teller machines. The bank is part of the Beito family group of banks, which includes four state banks and FNB.

FNB offers traditional loan and deposit products and services. Using March 31, 1997 financial information, loans totaled \$6.4 million or 33% of total assets. The loan portfolio consists of commercial and agriculture production (47%), commercial and agricultural real estate (22%), residential real estate (17%), and consumer loans (14%). Primary competition in the assessment area includes three banks and a Farm Credit Services office. There are no legal or financial impediments limiting FNB's ability to help meet community credit needs. The bank was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination, July 19, 1994.

DESCRIPTION OF THE FIRST NATIONAL BANK OF MCINTOSH'S ASSESSMENT AREA

FNB's assessment area includes portions of Polk, Clearwater, and Mahnomen Counties. The assessment area includes two census tracts (CTs) in eastern Polk County; which is part of the Grand Forks and East Grand Forks Metropolitan Statistical Area, one Block Number Area (BNA) in northern Mahnomen County, and one BNA in western Clearwater County. The CTs and BNAs are contiguous. Cities in the assessment area include McIntosh, Erskine, Fosston, Winger, and Mentor. Population of the area is about 12,000 and stable.

During our examination we modified the bank's assessment area to include whole CTs and BNAs. With the modification, the assessment area complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income areas.

The area median family income is \$21,517 or 59% of the out-state median income of \$36,500. All CTs and BNAs are moderate income. Family incomes within the assessment area are: 31% low income; 26% moderate income; 20% middle income; and 23% upper income. Approximately 23% of the population is below poverty level and 11% receive public assistance. Major employers include the local school district, the health care industry, agriculture and agriculture-related jobs.

The primary credit needs of the area include residential real estate loans, home equity credit, and commercial/agriculture loans to new or expanding businesses or farms. We determined this by contacting a local city government official and a county extension

officer.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable. FNB's ratio has been stable and averaged 45% since the last CRA examination. We compared FNB's ratio to a group of similarly situated banks. These banks are of similar size, independently owned, rural, and located in northwest Minnesota. FNB's ratio ranks the bank seventh out of ten, with the peer banks' ratios ranging from 25% to 77%.

While FNB's loan-to-deposit ratio is reasonable, it should be noted that the ratio is on the lower end of the range of similar banks. We recommended FNB review its products and services offered, increase advertising to include all of its assessment area, and informally survey members of the community to determine what additional products and services are wanted. This will help FNB increase loan volume and further help meet the credit and financial services needs of the community. Management and the Board of Directors agreed to consider our recommendations.

Lending in the Assessment Area

FNB originates a majority of its loans within the assessment area. FNB tracks loans made within its assessment area by coding the originations by zip code. An internal analysis completed October 1996 indicates 84% of outstanding loans were made within the assessment area. Our sample of consumer instalment and residential real estate loans verified the banks analysis; 90% of the number of loans and 86% of the dollar volume of loans in the sample were within the assessment area.

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

FNB has a good record of lending to individuals of different income levels and to businesses of different sizes. The following two tables illustrate lending within the commercial and agriculture, consumer instalment, and residential real estate portfolios. The tables represent a sample of 78 loans totaling \$1,206,666. The sample represents approximately 20% of the total dollar volume of loans.

Table One depicts the number and dollar volume percentages of loans extended to businesses of different sizes, as measured by annual sales. The sample represents 34 business and agriculture loans totaling \$627,723. Lending patterns illustrated in Table One reflect FNB's strong record of lending to businesses of all sizes, including small businesses and farms.

Table One

Annual Gross Sales	% of Number of Loans	% of Dollar Volume
<\$100,000	44%	23%
\$100,000-\$250,000	18%	22%
\$250,000-\$500,000	26%	46%
\$500,000-\$1,000,000	3%	4%
>\$1,000,000	9%	5%

Table Two represents a sample of 22 auto loans totaling \$134,110, and 22 residential real estate loans totaling \$444,835. The table illustrates the number and dollar volume percentages of loans extended to borrowers of different income levels.

Table Two

Income Level	% of Families	Auto Loans		Residential Real Estate	
		% Number	% Dollar	% Number	% Dollar
Low	31%	59%	45%	18%	7%
Moderate	26%	23%	14%	23%	7%
Middle	20%	9%	23%	37%	44%
Upper	23%	9%	3%	22%	42%

Lending patterns for auto instalment loans indicate the bank is extending credit to individuals of all income levels, including low- and moderate-income borrowers. Residential real estate lending to low-income borrowers appears low. However, a significant percentage of the area's low-income population is living below the poverty level and the availability of low-cost housing in the market place is scarce. Also, our review of denied real estate applications revealed very few applicants are denied home loans. Therefore, the level of lending to all income categories is comparable to the area's income demographics and opportunities.

Geographic Distribution of Loans

All CTs and BNAs in the assessment area are moderate income. Therefore, an analysis of the geographic distribution of loans among different income geographies is not meaningful.

Record of Compliance with Antidiscrimination Laws

Based on our review, the bank is complying with antidiscrimination laws. We found no substantive violations of the fair lending laws.