



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 27, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Cass Lake
Charter Number 6352

210 Second Street
Cass Lake, Minnesota 56633

Office of the Comptroller of the Currency
Duluth Duty Station
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 The First National Bank of Cass Lake, Cass Lake, Minnesota prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 27, 1996. 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 because:

The First National Bank of Cass Lake maintains a reasonable loan volume given the uniqueness of its deposit structure, its large number of small dollar loan originations, and the economic condition of its assessment area. In addition, the bank has focussed its lending efforts to make loans to individuals with low- and moderate-income levels, as well as, geographies of moderate-income levels.

The following table indicates the performance level of The First National Bank of Cass Lake, Cass Lake, Minnesota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>(NAME OF FINANCIAL INSTITUTION)</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		✓	
Lending in Assessment Area	✓		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	✓		
Geographic Distribution of Loans	✓		
Response to Complaints	The bank has not received any CRA complaints since its last CRA examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Cass Lake (FNB) is a small community bank located in northern Minnesota. The bank has fluctuated between \$13 million to \$19 million in total assets since our last CRA examination. FNB's unique deposit structure results in this size fluctuation. In particular, FNB has a large volume of seasonal deposits, up to \$6 million. In addition, FNB has a very high level of its deposits, almost 50%, originating from one related group of depositors. FNB is a retail bank with 41% of its loans made up of consumer instalment loans and another 38% made up of residential home loans. The remaining 21% of the loan portfolio consists of loans to primarily small businesses. Beyond the liquidity constraints placed on the bank by the seasonal and concentrated nature of its deposits, there are no other financial constraints inhibiting its CRA performance. Cass Lake Company, a one-bank holding company, is the primary owner of FNB.

DESCRIPTION OF FNB's ASSESSMENT AREA

FNB's assessment area consists of 10 whole block numbering areas (BNAs) including parts of three counties of northern Minnesota. This area is located outside of a metropolitan statistical area (MSA). The area includes roughly the southern one-half of the Leech Lake Indian Reservation. The area includes the bank's sole office, does not reflect illegal discrimination, and does not arbitrarily exclude any low- or moderate-income areas. The assessment area is comprised of three moderate-income BNAs and seven middle-income BNAs. Median family income for the assessment area is \$25,851 which is below the Minnesota statewide nonMSA median family income level of \$36,200.

Total population within the assessment area is approximately 33,000 persons. Overall economic conditions in the area are stable with a four percent unemployment rate. Major employers in the area include the Minnesota Chippewa Tribe, the Leech Lake Band of Chippewa, local schools and universities, the U.S.D.A. Forest Service, and various wood products businesses. During our contacts with two local organizations, and our review of three other regulatory community contacts made in 1995, we determined the primary credit needs of the community to be residential real estate, consumer, and small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Volume

FNB's loan-to-deposit ratio is reasonable. It is reasonable given the bank's unique deposit structure, number and average size of loan originations, and economic condition of the assessment area. Averaging quarter-end loan and deposit levels since our last CRA examination results in a loan-to-deposit ratio of 32%. Adjusting total deposits to exclude

seasonal deposits increases this ratio to 40%; adjusting total deposits to exclude deposits concentrated in one group of related entities increases this ratio to 64%. Unfortunately, given the unique seasonal and concentrated nature of FNB's deposit structure, comparison of its loan-to-deposit ratio to other similarly sized banks is not meaningful. And data is not available for comparisons on an adjusted basis. Overall reasonableness is also supported by FNB's large number of loan originations. FNB originates many loans; however, its aggregate dollar volume is held down due to its very small average loan size. A three month OCC sample of all loans made from May 1, 1996 through July 31, 1996 revealed that FNB's average loan size was \$1,931. The sample included 726 loans totaling just over \$1.4 million. This data is consistent with bank reports and management comments which indicate that FNB's three loan officers originate approximately 2,700 loans a year totaling approximately \$5.6 million. And lastly, reasonableness is also supported by the stable economic condition of FNB's assessment area. This stable, primarily rural economy has limited opportunities for loan originations or loan growth.

Lending in the Assessment Area

FNB originates almost all of its loans within its assessment area. An OCC sample of all 132 loans (totaling \$266 thousand) originated from July 15, 1996 through July 31, 1996 showed that 91%, by number, and 94%, by dollar, of originations came from within FNB's assessment area.

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

FNB has focussed its lending efforts to originate loans to individuals with low- and moderate-income levels, as well as, small businesses. An OCC sample of all 52 consumer loans (totaling \$73 thousand) originated from July 19, 1996 through July 25, 1996 showed that FNB made a very high level of loans to individuals with low- and moderate-income levels. In fact, this level exceeded the demographics of the area. In particular, demographics reveal that 29% of the population is low-, 16% moderate-, 20% middle-, and 35% upper-income. The OCC sample showed that FNB made 56% of its loans, by number, and 39%, by dollar, to individuals with low-income. Likewise, FNB made 28%, by number, and 33%, by dollar, to individuals with moderate-income. Sampled loans to middle and upper income applicants totaled 8% and 8%, by number, respectively, and 5% and 23%, by dollar, respectively.

OCC sample of 14 existing commercial borrowers showed that 86% of commercial loan originations, by number, and 84%, by dollar, were made to business with gross revenues of under \$1 million. This same sample showed that 57%, by number, and 60%, by dollar, were made to businesses with gross revenues under \$500 thousand.

Geographic Distribution of Loans

FNB has focussed its lending efforts to originate loans in the moderate-income BNAs within its assessment area (there are no low-income BNAs). The OCC sample described in the Lending in the Assessment Area section above, also showed the concentration of FNB's originations in the moderate-income BNAs. Even though these BNAs make up only 30%, by number, and 15% ,by population, of the assessment area, FNB originated 80% of its loans, by number, and 65%, by dollar, from within these moderate-income BNAs. Bank reports also show that FNB is making loans in every other BNA within its assessment area.

Record of Complying with Antidiscrimination Laws

No violations of the substantive provisions of antidiscrimination laws and regulations were identified during this examination.