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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

November 24, 1997

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Deer River  
Charter Number 9131**

**9 First Street, N. E.  
Deer River, Minnesota 56636**

**Office of the Comptroller of the Currency  
Duluth Field Office  
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 Deer River** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 24, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C. F. R. § Part 25.*

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

The First National Bank of Deer River satisfactorily serves the credit needs of its community. It focusses its lending efforts toward low- and moderate-income individuals and geographies, small businesses, and originates loans within its local community. This focus has resulted in a large number of small-dollar loan originations and reasonable overall loan volume.

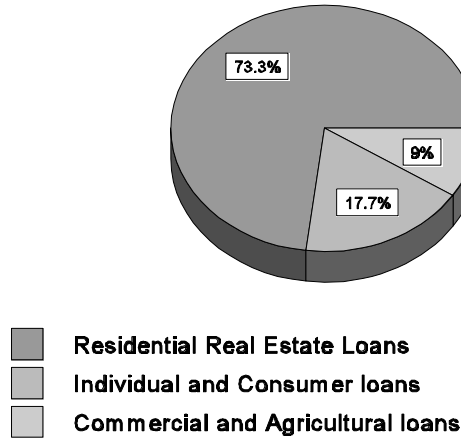
## DESCRIPTION OF INSTITUTION:

The First National Bank of Deer River (Bank) is a small, community bank located in Itasca County, Minnesota. The Bank is wholly-owned by First National Agency Company of Deer River, Inc., a one-bank holding company. Total assets are \$14,236,000 as of September 30, 1997. The bank is predominately a residential real estate loan originator as highlighted by the chart at the right. The Bank reports approximately \$5.5 million in outstanding loans.

The Bank operates two offices. The main office is located in the town of Deer River (population of 896). The branch office is located in nearby La Prairie (population of 438), a bedroom community to Grand Rapids (population of 8,176), the county seat and largest city in Itasca County.

## Loan Portfolio

Composition



There are no financial constraints or legal impediments on the bank that inhibit its CRA performance. The Bank was previously rated “satisfactory” at its CRA examination as of November 30, 1995.

## DESCRIPTION OF THE FIRST NATIONAL BANK OF DEER RIVER’S ASSESSMENT AREA:

The Bank’s assessment area (AA) includes all of Itasca County and the northern portion of Cass County defined by the block numbering areas (BNAs) of 9601, 9605, 9610, 9611, and 9612. The population of the AA is 49,746 based on the 1990 U.S. Census. The area’s geography is predominately lakes and forest. The area’s economy is dependent on lumber/paper, light manufacturing, medical-related services, and tourism. The AA meets the criteria of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA consists of seven moderate-income BNAs and nine middle-income BNAs. Recent community contacts with local government and housing officials affirmed that the area’s primary credit needs are lower-income housing, residential real estate loans, and small business loans. A credit union in Deer River, as well as, several financial institutions in nearby cities of Cohasset, Grand Rapids, Coleraine, and Bigfork provide aggressive local competition for loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

The Bank performs exceptionally in providing credit to borrowers of different income levels and businesses of various sizes. Its market niche is originating small-dollar loans to low- or moderate-income individuals and to small businesses.

#### Consumer Lending:

The Bank's consumer lending focusses upon originating loans to borrowers of various incomes, but especially those with low- or moderate-incomes. A sample of residential real estate loans for home purchase, home improvement, and home equity purposes clearly supports this conclusion. The sample included 45 of the 91 such loans originated since the last CRA examination. The following table displays the findings of this sample and the Bank's lending emphasis on originating loans to low- and moderate-income individuals. The table compares the Bank's lending performance to demographics on the assessment area's 13,736 families. It should also be noted that 13.4% of all families reported income below the poverty level.

| Income Level *  | Families in each Income Level as a % of all Families in the AA | Number of Loans Originated to Borrowers in each Income Level (%) | Dollar of Loans Originated to Borrowers in each Income Level (%) |
|-----------------|--|--|--|
| Low-income      | 23.5%  | 35.0%  | 28.9%  |
| Moderate-income | 20.1%  | 27.5%  | 23.9%  |
| Middle-income   | 21.1%  | 17.5%  | 19.8%  |
| Upper-income    | 35.3%  | 20.0%  | 27.4%  |

\* Income levels are determined by the following ranges of the Minnesota state non-metropolitan median family income of \$38,400 for 1997 and \$34,100 for 1996. Low-income: < 50%; Moderate-income: ≥ 50%, but < 80%; Middle-income: ≥ 80%, but < 120%; Upper-income: ≥ 120 %.

Management indicated that borrower incomes are similar for the remaining residential real estate and other consumer loan portfolios.

#### Business Lending:

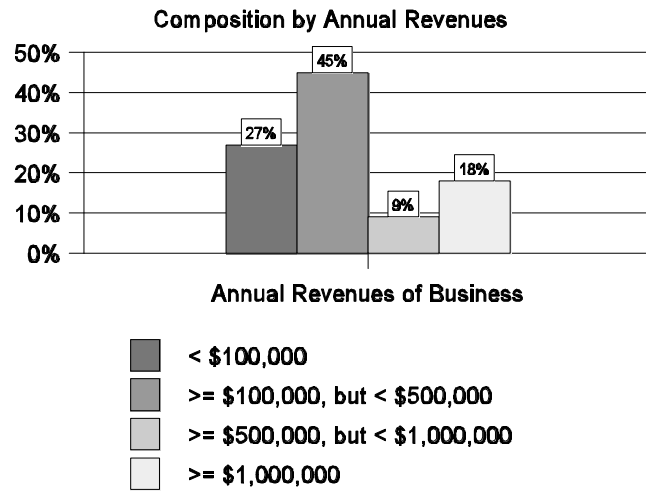
The Bank's lending to businesses of different sizes is reasonable. The following chart displays a percentage breakdown of the Bank's commercial loan portfolio in terms of the annual revenues of its borrowers. The chart shows the Bank's emphasis on lending to small businesses\*\*. This data is derived from a judgmental review of 11 loan relationships of the Bank's approximately 37 commercial customers. Demographic information on the annual sales volume of businesses located in the Bank's assessment area indicate that 82% of all businesses generate annual revenues

of less than \$500 thousand, 9% generate revenues between \$500 thousand and \$1 million, and 9% generate revenues of \$1 million or greater.

Management indicated that lending patterns are similar for the balance of the commercial loan portfolio.

\*\* A small business is defined as having annual revenues of less than \$1,000,000.

## Commercial Portfolio



### Lending within the Assessment Area:

The Bank originates a substantial majority of its loans within the assessment area. Examiners used the previously noted sample of residential real estate loans to determine the volume of loans originated in the assessment area. Ninety-eight percent of the number and dollar volume of these loans were originated within the Bank’s assessment area. Bank management indicated that lending patterns are similar for the remaining real estate portfolio as well as other consumer loans.

### Geographic Distribution of Loans:

The Bank’s geographic distribution of loans within its AA is reasonable and is also proportional to the populations of the respective BNAs. Although by number the Bank’s BNAs are 44% moderate-income and 56% middle-income by number, only 29% of the population resides in the moderate-income BNAs compared to 71% in the middle-income BNAs. The following table shows the Bank’s loan distribution based on the residential real estate loan sample previously identified.

| Income Level of BNA | Distribution of BNAs by Income Level | Distribution of Population by Income Level | Percent of Loans, by number | Percent of Loans, by dollar |
|---------------------|--------------------------------------|--|-----------------------------|-----------------------------|
| Moderate            | 44%                                  | 29%  | 58%                         | 36%                         |
| Middle              | 56%                                  | 71%  | 42%                         | 64%                         |

Management indicated lending patterns are similar throughout the remaining real estate portfolio and consumer loan portfolio.

**Loan-to-Deposit Ratio:**

The Bank’s average quarterly loan-to-deposit (LTD) ratio is reasonable, though moderate, given its niche as an originator of small-dollar loans. A high volume of small-dollar lending contributes to the Bank’s loan volume. The Bank’s average LTD ratio over the last eight quarters (since the last CRA examination) is 39%. The average quarterly LTD ratio over the same time period for the five comparable banks in Itasca and Cass Counties is 55%.

The Bank originates a large volume of small dollar loans. Such loans are time consuming and result in lower aggregate loan outstandings. Nevertheless, the Bank has focussed upon this lending niche in response to the AA’s need for such credit. A computer report detailing all loans (except “over line checking loans”) originated between September 30, 1995 and October 29, 1997 confirm that the Bank’s average loan size is low. This report detailing 439 loans reflects an average loan size of \$9,600. Further review of this data reveals that 82% of all originations are concentrated in loan amounts under \$5,000. The following table highlights this concentration in small-dollar loan originations.

| Size of Loan by Dollar Amount  | Total Dollars Originated | Total Number of Originations | Average Dollar Loan Size |
|--------------------------------|--------------------------|------------------------------|--------------------------|
| Loans ≤ \$1,000                | \$ 92,000                | 160                          | \$ 570                   |
| Loans > \$1,000, but ≤ \$5,000 | \$ 498,000               | 203                          | \$ 2,453                 |

**Response to Complaints:**

Neither the Bank nor the Office of the Comptroller of the Currency have received any CRA-related complaints since the last CRA examination.

**Fair Lending Conclusion:**

This examination did not identify any substantive violations of antidiscrimination laws. To draw this conclusion, examiners reviewed a sample of twenty automobile loan applications. Examiners compared underwriting criteria used to evaluate five recently denied automobile applications from individual female applicants against those used for fifteen recently approved automobile loans to individual males and married applicants.