



Comptroller of the Currency
Administrator of National Banks

Small
Bank

Public Disclosure

April 13, 1998

Community Reinvestment Act Performance Evaluation

**The First National Bank of Milaca
Charter Number 9050**

**190 Second Avenue S.W.
Milaca, Minnesota 56353**

**Office of the Comptroller of the Currency
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

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 CRA performance of The First National Bank of Milaca prepared by The Office of the Comptroller of the Currency as of April 13, 1998. 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 Milaca's (FNB) penetration of lending throughout its assessment area is good. The bank originates a substantial majority of loans secured by commercial or residential real estate in its assessment area. FNB's distribution of lending to borrowers based on their income and to commercial businesses based on annual gross revenues is reasonable. The bank's average quarterly loan-to-deposit ratio is also reasonable at 59%. Through FNB's passive contributions and active representation by its staff in organizations which enable it to participate in community development activities, the bank remains actively involved in community development loans and activities that directly benefit the community.

Description of Institution:

FNB is an independently owned \$87 million institution located in Milaca, Minnesota with a branch office in Isle, Minnesota. FNB's main office is located in a middle-income geography while its branch office is located in a moderate-income geography. According to the June 30, 1997 Report of Condition, 69% and 31% of the bank's deposits are divided between the Milaca and Isle office, respectively. The bank operates five cash dispensing machines and one automated teller machine within its assessment area. The bank has not opened or closed any offices since the last CRA examination dated April 1, 1996. The bank was rated "outstanding" as of the last CRA examination.

According to the December 31, 1997 Report of Condition, FNB's \$45,564,000 loan portfolio consists of 27% residential real estate loans, 24% commercial real estate loans, 22% commercial operating loans, 14% agricultural operating loans, and 13% consumer loans. There are no legal or financial impediments which hinder the bank's ability to fulfill its CRA obligations.

Description of Assessment Area (AA):

FNB's AA includes five adjacent block numbering areas (BNA) in Mille Lacs and southeast Aitkin Counties. The three middle-income BNAs are located in north and central Mille Lacs County in close proximity to the bank's main office. FNB's AA also includes one moderate-income BNA in northeast Mille Lacs County and one moderate-income BNA in southeast Aitkin County. The bank's AA does not arbitrarily exclude low- or moderate-income geographies. According to the 1990 Census, the population of FNB's AA is 11,134. Of the families residing in the AA, 22% are categorized as low-income, 21% as moderate-income, 23% as middle-income, and 34% as upper-income. Nine percent of all families in the AA earn an income below the poverty level. The nonmetropolitan statewide median family income for 1997 is \$38,400. As of the 1990 census, 18% of the AA's population was over age 65 as compared to the state average of 12.5%.

FNB competes with several banks and a credit union branch for loans and deposits in Mille Lacs, Aitkin, and Kanabec Counties. It is the second largest of the five banks chartered in Mille Lacs and Aitkin Counties in terms of total assets and gross loans as of December 31, 1997.

While the largest employer in Mille Lacs County is a casino, 20% of the county's employment is provided by manufacturing businesses. The largest employers in the City of Milaca include the school district, city and county government offices, and manufacturing companies. Much of the land in Mille Lacs County is tax-exempt consisting of reservation land, state parks, state forests, wildlife refuges, or water.

Conclusions with Respect to Performance Criteria:

Distribution of Credit Within the Assessment Area by Borrower Income and by Business Revenues

FNB's lending to borrowers for loans secured by residential real estate is comparable to the family income demographics of the AA. Within the bank's AA, 9% of all families report income below the poverty level which is reflected in the bank's lower lending activity to low-income individuals. The aggregate level of loans to low- and moderate-income families is augmented by the loans originated at Isle. The branch is located in a moderate-income BNA which contains a higher proportion of low- or moderate-income families than the BNAs surrounding the main office. Examiners randomly reviewed 40% of the 79 residential real estate loans originated in 1997 within the AA for income information. The sample included 26% of the loans from the Isle office and 74% from the Milaca office.

Distribution of Loans Secured by Residential Real Estate by Borrower Income Loans Originated in 1997					
Income Level of Borrower	# of Loans and %		\$ of Loans and %		% of Families in AA Residing in BNA
Low-income	2	7%	25,000	2%	22%
Moderate-income	8	27%	240,900	20%	21%
Middle-income	8	27%	220,748	18%	23%
Upper-income	12	40%	730,600	60%	34%

The distribution of bank's commercial loan relationships based on their annual gross revenues is reasonable as compared to demographic information for businesses reporting annual revenues less than \$500,000. However, 42% of the bank's commercial loan customers report revenues exceeding \$500,000 as compared to demographic information which reflects 14% of the businesses. Although the bank's lending appears concentrated in larger businesses, three of these businesses were initially attracted to the area through economic development activities in which the bank initially participated.

Distribution of Commercial Lending by Annual Gross Revenues of the Business Based on Loans Originated between December 1, 1996 and April 14, 1998			
Gross Annual Revenues of the Business	# of Lending Relationships and %		Demographic Data by Business Revenues in the AA
Less than \$250,000	10	28%	60%
\$250,000 to \$500,000	11	31%	
Greater than \$500,000 to \$1,000,000	9	25%	7%
Greater than \$1,000,000	6	17%	7%
Revenue data not meaningful or not reported	2	6%	26%

FNB regularly participates in lending opportunities to attract new businesses to the area. These

programs are effective in redeveloping and revitalizing the bank's AA. FNB has provided loans in 1996 and 1997 in cooperation with programs and/or concessions provided by the Cities of Milaca and Isle, Mille Lacs County, the Economic Development Commission, and East Central Electric Association. Three of these recent loan relationships are included in the above analysis.

Distribution of Credit Within the Assessment Area by Geography

FNB penetration of lending throughout its AA is good as revealed in the following table. The bank's opportunity to originate commercial and residential real estate loans directly corresponds to the population residing within each BNA. The bank's branch office in Isle ensures that appropriate penetration into the two moderate-income BNAs occurs. Examiners relied upon bank-prepared reports to determine the loan distribution and verified the accuracy of the report by sampling 35% of the loans included in the report. The report was materially accurate.

Distribution of Loans Secured by Commercial or Residential Real Estate by BNA Originated in 1997							
Income Level of BNA	# of Loans and %		\$ of Loans and %		# and % of BNA		% of Families in AA Residing in BNA
Moderate-income	34	33%	1,298,859	26%	2	40%	27%
Middle-income	68	67%	3,723,902	74%	3	60%	73%

Loan-to-Deposit Analysis

FNB's average quarterly loan-to-deposit (LTD) ratio is reasonable at 59%. However, FNB's LTD ratio is low compared to the average quarterly ratios of five other banks chartered in Aitkin and Mille Lacs Counties which range from 53% to 92% and average 69% over this same period. FNB's LTD ratio has remained constant during this period while the LTD ratios of four banks have increased steadily. The average quarterly LTD ratio was calculated as of the eight quarters ending March 31, 1996 to December 31, 1997. Since the last CRA examination, FNB began offering residential real estate loans through a mortgage company which sells the loans on the secondary market. In 1997 and 1998, FNB referred 10 customers to the mortgage company. This activity has a minimal impact on the bank's LTD ratio and distribution of loans.

Lending within the Assessment Area

FNB originated a substantial majority, or 94% by dollar and 90% by number, of all loans secured by commercial or residential real estate within its AA. This conclusion is based on management's report of loans originated in 1997 which were on the bank's balance sheet as of April 13, 1998. National bank examiners verified the accuracy of 39 of the 113 loans or 35% listed in this report.

Response to Complaints

Neither the bank nor the Comptroller of the Currency have received any complaints regarding the bank's CRA performance since the prior CRA examination.

Record of Compliance with Antidiscrimination Laws

During the bank's concurrent fair lending examination, no violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

Significant Services and Investments within the Community

Through FNB's passive contributions and active representation by its staff in organizations which enable FNB to participate in community development activities, the bank remains actively involved in community development loans and activities that directly benefit the community. A FNB Vice President currently serves as the Chairman of the Economic Development Commission in Milaca. Another Vice President is a member of the Mille Lacs Area Community Development Corporation (MLACDC). The bank's Chairman is a member of the Central Minnesota Initiative Fund (CMIF). The bank financially supports the MLACDC and the CMIF through regular contributions. CMIF provides businesses with investment funds to fill financing gaps for new and expanding businesses in the 14-county area served by CMIF. It also provides grants to support community based activities, community visioning and planning, housing studies, etc. In 1996 and 1997, FNB contributed \$6,500 to CMIF and \$2,000 to the MLACDC. FNB also donated \$500 to the Habitat for Humanity in 1997.

FNB advertised the availability of an accounting software class to assist its small business customers and provided an area to the Anoka-Hennepin Technical College in order to conduct the classes. The 1997 course was instructed by a representative of the college over a three month period.