



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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**PUBLIC DISCLOSURE**

**April 16, 2007**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

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

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

**Comptroller of the Currency  
Minneapolis North  
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.**

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

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a substantial majority of its loans by number and dollar within its assessment area.
- The bank has an excellent distribution of residential real estate loans to borrowers of different income levels.
- The distribution of loans originated to small businesses is reasonable given the percentage of small businesses in the assessment area.

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Milaca (FNB) is a \$145 million institution located in Milaca, Minnesota. FNB is owned by Rum River Bancorporation, Inc., a one-bank holding company also headquartered in Milaca, Minnesota. FNB has two branch locations in Isle and Gilman, Minnesota, and operates five automated teller machines.

FNB's lending focus is small- to medium-sized businesses as well as present and potential homeowners. As of December 31, 2006, FNB's net loans and leases totaled \$104 million or 72% of the bank's total assets. The loan portfolio was comprised of commercial and commercial real estate loans (42%), residential real estate loans (31%), loans to individuals (12%), agricultural loans (12%) and construction and all other loans and leases (3%). Tier one capital totaled \$15.8 million as of December 31, 2006.

There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its assessment area.

The bank's most recent CRA performance evaluation was dated December 9, 2002 and a rating of "Satisfactory" was assigned.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area consists of seven adjacent census tracts (CTs) covering most of Mille Lacs County, the southwest portion of Aitkin County and the northeast portion of Benton County. All CTs are contiguous and include each of the bank's offices and all bank ATM's. Five of the seven census tracts are designated as distressed or underserved. The assessment area meets the requirements of the regulation.

The economy of the assessment area is stable. Most jobs are service or trade oriented. Tourism is an important economic factor in the assessment area. Unemployment rates in Mille Lacs, Benton and Aitkin Counties (9.4%, 6%, and 7.9%, respectively) are well above the Minnesota

state wide average of 3.6%. The updated 2006 median family income figure for non-metropolitan Minnesota is \$55,100. Based on data from the 2000 Census, approximately 19% of families in the assessment area are considered low-income, (10% are considered below poverty), 21% moderate-income, 27% middle-income and 33% upper-income. The assessment area includes a significant number of housing units used as vacation/lake homes because of its recreational value and proximity to the Twin Cities. Median home values increased from \$92,000 in 2000 to \$99,000 in 2006.

FNB competes with several other community banks and a credit union for loans and deposits. The level of banking competition in the area is considered moderate. In addition to FNB, another bank and a credit union are located in Milaca. FNB's branch is the only financial institution in Gilman, however there are three financial institutions located in Foley, less than 5 miles away. FNB's branch and a credit union are the only financial institutions located in Isle.

We contacted one individual involved in the Milaca community. The economic development plan focuses on growing the economy and on working with existing businesses to help them grow and expand, and in attracting new business to the area. Over the last 2 years the area has seen increased growth in the commercial business, primarily with small businesses. Affordable housing continues to be a community need. The degree of involvement in the community by area financial institutions is good.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNB's loan-to-deposit ratio is reasonable, although below peer average. The bank's quarterly average loan-to-deposit ratio over the last 18 quarters ending March 31, 2007 is 72%. This ratio is the lowest among five similarly situated community banks by asset size and location of headquarters (in the assessment area and average assets as of March 31, 2007 of \$65 million - \$145 million). The quarterly average loan-to-deposit ratio over the last 18 quarters for the four other banks in the peer group is 80%.

### **Lending in Assessment Area**

FNB originates a substantial majority of its loans within the assessment area. Based on a sample of 20 residential real estate and 20 commercial loans, 95% of the loans by number and 87% by dollar are within the bank's assessment area.

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

The bank has an excellent distribution of residential real estate loans to borrowers of different income levels.

FNB's residential real estate loan volume originated to borrowers with low- to moderate-

incomes exceeds the percentage of low- to moderate-income families in the assessment area. The following table shows the overall borrower income distribution of residential real estate loans sampled. Examiners sampled 20 residential real estate loans at random originated in the assessment area since January 1, 2005.

Income Level of Borrowers	Loan Originations by Number	Loan Originations by Dollar	Families in the Assessment Area
Low	27%	24%	19%
Moderate	45%	40%	21%
Middle	23%	32%	27%
Upper	5%	4%	33%

FNB's loans originated to small businesses, those with annual revenues of \$1 million or less, is similar to the percentage of small businesses in the assessment area. The vast majority of businesses in the assessment area with known revenue size are considered small businesses. However, 41% of assessment area businesses did not report revenue data to Dunn & Bradstreet. According to bank management, most of the businesses in the assessment area have annual revenues of \$1 million or less. Examiners sampled 20 business loans at random originated in the assessment area since January 1, 2005. Of the 20 sampled loans, those loans made to businesses with unavailable revenues were loans under \$200M.

Businesses with Annual Revenue Size	Loan Originations by Number	Loan Originations by Dollar	% Of AA Businesses*
\$1 Million or Less	64%	47%	56%
> \$1 Million	18%	32%	3%
Unknown	18%	21%	41%

\* Source: Dunn and Bradstreet

### **Geographic Distribution of Loans**

Analysis of the geographic distribution of loans is not meaningful as the bank's assessment area consists solely of middle-income census tracts.

### **Responses to Complaints**

FNB has not received any CRA related complaints since its December 9, 2002 CRA evaluation.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.