



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 19, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Bemidji
Charter Number 5582

1600 Paul Bunyan Drive NW
Bemidji, MN 56601

Office of the Comptroller of the Currency

222 South 9th Street, Suite 800
Minneapolis, MN 55402-3371

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 Outstanding.

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

First National Bank of Bemidji's (FNB) overall lending performance is satisfactory and responsiveness to meeting the needs of the bank's assessment area (AA) is excellent.

The major factors that support these ratings include the following:

- FNB's participation in community development activities is strong and helps meet the needs of low- and moderate-income individuals, support small business development, and promote economic development in the AA.
- FNB made a substantial majority of its loans in the designated AA.
- FNB's distribution of loans to low- and moderate-income borrowers and in low- and moderate-income geographies is reasonable.

Scope of Examination

FNB's CRA examination is based on a review of the bank's primary lending products. The evaluation period for the Lending Test includes originations and purchases made in 2010 and 2011. The following table depicts the volume of loans originated or purchased during 2010 and 2011:

<i>Loan Type</i>	<i>% of Volume by \$</i>	<i>% of Volume by #</i>
Home Mortgage Loans	53%	16%
Consumer Loans	16%	56%
Commercial Loans	29%	25%
Agricultural Loans	2%	3%

Source: Data sort of FNB's Loan Trial Balance

For purposes of this evaluation, the primary loan types are residential home mortgage loans and consumer loans. These two products combined represent 69% of the dollar and 72% of the number of loans originated and purchased during the evaluation period.

The Lending Test consisted of a random sample of 20 home mortgage and 20 consumer loans. From this sample, we determined the bank's lending performance in the AA. These loans, all from in the AA, were used to analyze FNB's performance regarding geographic distribution and lending to borrowers of different income levels.

The evaluation period for the Community Development Test is November 10, 2009 through September 30, 2012. We reviewed community development loans, services, and investments provided by FNB and qualified investments (donations) provided by the

FNB of Bemidji Foundation (Foundation), which is an affiliate of the bank. Those activities meeting the definition of community development are included in this evaluation.

Description of Institution

FNB is located in a non-metropolitan statistical area in northern Minnesota in the community of Bemidji. A portion of FNB's AA includes areas of the Red Lake and Leech Lake Indian Reservations. FNB had \$556 million in assets as of December 31, 2011 and is wholly owned by First Bemidji Holding Company (FBHC), a one-bank holding company also located in Bemidji, Minnesota. FBHC's assets consist primarily of FNB. As noted above, the Foundation investments are affiliate transactions that are being considered in this evaluation.

FNB has six locations throughout Bemidji, Minnesota. The main office and two branches offer full-service banking services. Three other branches are limited-service and are located in assisted living and nursing home facilities. These are designed to meet the needs of those unable to travel to a full-service location. FNB also operates nine automated teller machines (ATMs) in the Bemidji area. Four of these ATMs are deposit-taking with the remaining limited to cash-dispersing services only.

FNB is a full-service bank offering a variety of loan and deposit products. As of December 31, 2011, net loans totaled \$265 million, representing 48% of total assets and 60% of deposits. The loan portfolio consisted of 42% residential real estate, 43% commercial, 11% consumer, 2% agricultural, and 2% other loan types. Tier 1 Capital totaled \$73 million.

There are no financial, legal or other factors that impede the bank's ability to help meet the credit needs of its AA. FNB received an "Outstanding" rating on its last CRA evaluation dated November 9, 2009.

Description of Assessment Area (AA)

FNB has one designated AA that consists of eleven contiguous CTs in north central Minnesota. The AA includes all of Beltrami County, northern Hubbard County, and northern Cass County. This AA includes one low-income, four moderate-income, and six middle-income geographies. The population of the AA was 46,650 per the 2000 U.S. Census information. The largest city in the AA is Bemidji with a population of 13,400 people. Other cities in the AA include Cass Lake, Redby, and Solway. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

The low-income geography is located on the Red Lake Indian Reservation in Beltrami County. This reservation is home to the Red Lake Band of Chippewa Indians and is classified as a "closed" reservation. This designation presents unique obstacles to financial institutions as Tribal government has full sovereignty over the reservation,

subject only to the Federal government. The land is held in common by Tribe members who have the right to limit who can visit, operate businesses or live on the reservation. All land within the reservation is owned by the Tribe and financial institutions are unable to obtain mortgages on this land. The reservation's 50.4% unemployment rate is well above the 8.9% average of the tri-county area, the 5.7% statewide average, and 8.5% nationwide average. In addition, two of the moderate-income tracts include a portion of the Leech Lake Indian Reservation in Beltrami and Cass Counties.

The AA economy has struggled over the evaluation period with areas of high unemployment, as noted above. The economic conditions of the AA have improved slightly but continue to be behind the state and national economies. Major employers include area universities and public school systems, Sanford Health Services, Anderson Fabrics, and Beltrami County. The AA's 2012 updated median family income is \$59,200 and the updated median housing value is \$72,956. The poverty level of the AA was reported at 17% of households in the 2000 Census data, compared to the national average of 12%.

FNB experiences some competition from other financial institutions in and around the AA. Based on the June 30, 2012 Federal Deposit Insurance Corporation Deposit Market Share Report, there are nine banks within the AA operating 18 offices and sharing \$807 million in deposits. These institutions range in size from a \$52 million community bank to a branch of an \$850 billion nationwide bank. FNB ranks first of all these banks with a deposit market share of 56%. The next largest competitor has a market share of 13%.

We reviewed several community contacts and contacted an individual to determine what the credit needs are in the AA. Affordable housing, small business, and economic development were noted as the primary identified needs for the community.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the Lending Test is "Satisfactory". The bank meets the demographics for lending to borrowers of different incomes and in geographies of different income levels. The bank's lending in its AA is strong and its loan-to deposit ratio is reasonable.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given the size, financial condition, AA needs, and local economic conditions. Over the past twelve quarters, FNB's LTD ratio averaged 66%. The LTD ratio has ranged from as high as 72% to as low as 58%.

Table 2 compares FNB's LTD ratio with five other similarly situated financial institutions in the Bemidji, Minnesota area. The LTD ratios of these institutions range from 59% to

88%. FNB's LTD ratio ranks fifth among comparable banks. It should be noted that FNB's average LTD ratio does not reflect all home mortgage lending activities, as the bank sells mortgages on the secondary market. The following table shows LTD details and rankings:

Table 2: Loan-to-Deposit Ratios		
Average of Quarterly LTDs December 31, 2009 – September 30, 2012		
Bank Name	Average LTD	Asset Size (000) 9/30/12
Security State Bank USA	88%	\$110,918
The First National Bank of Deerwood	86%	\$239,941
Riverwood Bank	77%	\$155,865
Citizens State Bank – Midwest	74%	\$108,512
The First National Bank of Bemidji	66%	\$570,464
First National Bank of Bagley	59%	\$ 79,618

Source: Call Report data, December 31, 2009 through September 30, 2012.

Lending in Assessment Area

FNB's lending within its AA is excellent. A majority of loans are made in the bank's AA at 88% by number and 84% by dollar volume of loans reviewed. The following table illustrates lending activity in 2010 and 2011.

Table 3: Lending in FNB's Assessment Area								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$(000)	%	\$(000)	%
Home Loans	17	85%	3	15%	1,555	84%	302	16%
Consumer Loans	18	90%	2	10%	180	89%	23	11%
Totals	35	88%	5	13%	1,735	84%	325	16%

Source: Loan Sample

Lending to Borrowers of Different Incomes

FNB's lending to borrowers of different incomes is satisfactory.

Home Mortgage Loans

FNB's home mortgage lending demonstrates reasonable penetration of low- and moderate-income borrowers. FNB is comparable to the demographics for low-income borrowers and somewhat lower than the demographics of moderate-income borrowers. The rating takes the AA's high poverty rate of 17% into consideration. Borrowers at this income level have a higher degree of difficulty being approved for a home mortgage loan. The following table depicts sampling results.

Table 4a: Borrower Distribution of Home Mortgage Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Loans	26%	25%	19%	5%	23%	20%	32%	50%

Source: Loan Sample and 2000 U.S. Census data.

Consumer Loans

FNB’s consumer lending meets the standard for satisfactory performance. The bank exceeds the demographic information for moderate-income households but is somewhat lower than the demographics for low-income households. As previously noted, the high poverty level in the AA is considered in this rating. Refer to the table below for sampling results.

Table 4b: Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	27%	5%	18%	25%	20%	30%	35%	40%

Source: Loan Sample and 2000 U.S. Census data.

Geographic Distribution of Loans

FNB’s lending in geographies of different income levels is satisfactory.

Home Mortgage Loans

FNB’s lending of home mortgage loans demonstrates a reasonable dispersion in the moderate-income CTs. The number of loans is slightly lower than the demographic information for the AA. An analysis of home mortgage loans in the low-income area (Red Lake Indian Reservation) is not meaningful due to the unique circumstances surrounding mortgages in this area, as previously noted. As a result, the rating for this component is based solely on lending in the moderate-income geographies. The table on the following page depicts the lending practices of the bank.

Table 5a: Geographic Distribution of Home Mortgage Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Loans	7%	0%	22%	15%	71%	85%	N/A	N/A

Source: Loan Sample and 2000 U.S. Census data.

Consumer Loans

The bank’s geographic distribution of consumer loans meets the standard for satisfactory performance. Lending to borrowers in the low-income CT exceeds the demographic information for this area. Lending to borrowers in the moderate-income CTs is slightly lower than the demographics but is considered to be a reasonable dispersion of loans. The following table illustrates FNB’s geographic lending performance of consumer loans.

Table 5b: Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	10%	15%	22%	15%	68%	70%	N/A	N/A

Source: Loan Sample and 2000 U.S. Census data.

Responses to Complaints

FNB has not received any CRA-related complaints during this evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB’s performance under the Community Development (CD) Test is “Outstanding”. The bank demonstrates excellent responsiveness to the CD needs of its AA through CD lending, investments, and services. Due to FNB’s exceptionally strong performance in this area, more weight was placed on the CD Test in determining the bank’s overall CRA rating.

Number and Amount of Community Development Loans

FNB's performance in extending CD loans is excellent. The bank originated nine CD qualifying loans totaling \$9.3 million during the evaluation period. This is equivalent to 13% of the bank's Tier 1 Capital as of December 31, 2011. These loans support community development services and the creation of jobs in the AA.

Number and Amount of Qualified Investments

FNB's level of qualified investments demonstrates an excellent responsiveness to the needs of the community. Due to the limited opportunities in the designated AA, the bank has looked to distressed and underserved communities in the state of Minnesota, after meeting local community needs. CD investments are made through investments and grants/donations by the bank and the Foundation. The Foundation is a nonprofit organization funded by the bank, with a mission to meet community needs. During the evaluation period, the Foundation made 13 qualifying grants to eight area organizations. The bank made an additional 50 donations to qualifying organizations. Also during the evaluation period, the bank donated the old bank building to the school district to provide a location for programs that primarily serve low- and moderate-income (LMI) families. The value of this donation was \$890 thousand.

The table below summarizes the CD investment activity conducted by FNB and the Foundation during the evaluation period. In addition to these activities, the table also includes investments made prior to the evaluation period (previous period purchases) that are still outstanding. The continuing impact of these investments was also considered in the assessment of the bank's performance under the CD Test. All combined, FNB's CD-related investments totaled \$16.2 million or 22% of its Tier 1 Capital.

Table 6 – Community Development Investments		
Type	Number	Dollar Amount (000's)
Donations/Grants - Local	64	\$1,095
Current Investment - Local	0	0
Current Investment Purchases - Statewide	41	8,200
Evaluation Period Investments	105	\$9,295
Prior Investments (Previous Period Purchases) - Local	1	\$ 500
Prior Investments (Previous Period Purchases) - Statewide	30	6,400
Total Prior Period Investments	31	\$6,900

Extent to Which the Bank Provides Community Development Services

FNB's participation in community development services is excellent. Delivery systems are readily accessible to geographies and individuals of different income levels in the

bank's AA. FNB has six locations and nine ATMs. Two branches and one ATM are located in a moderate-income CT. In addition to the bank's branch and ATM network, FNB offers a variety of alternative delivery systems including telephone banking, Internet banking, and banking by mail. In addition, FNB offers check cashing for noncustomers and the "unbanked" population in the AA.

FNB staff is actively involved in several area organizations established to address the social service needs of LMI individuals. During the evaluation period, 25 employees served in a CD-qualifying capacity for 13 different organizations. These organizations address affordable housing, small business, and economic development needs throughout the AA.

Responsiveness to Community Development Needs

As evident by the participation in community development activities, FNB is responsive to the community needs of business and economic development and affordable housing, as identified through community contacts.

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.