



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**October 8, 2003**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank of the North  
Charter Number 16871**

**510 Main Street  
Sandstone, MN 55072**

**Comptroller of the Currency  
Minneapolis North Field Office  
302 West Superior Street  
The Lonsdale Building, Suite 307  
Duluth, MN 55802**

**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.**

First National Bank of the North (FNBN) is satisfactorily meeting the credit needs of its assessment area. This is best demonstrated by:

- The origination of a substantial majority of its residential real estate and commercial loans to borrowers located within its assessment area.
- A strong distribution of loans throughout its assessment area, specifically to borrowers and businesses in moderate-income geographies.
- An excellent distribution of loans to borrowers of various incomes, especially those with moderate-income.
- The origination of loans to small businesses consistent with the business demographics of the assessment area.
- Reasonable loan volume, as evidenced by a quarterly average loan-to-deposit ratio that is comparable to other local banks of similar size.

## **DESCRIPTION OF INSTITUTION**

First National Bank of the North (FNBN) is a \$58 million bank located in Sandstone, Minnesota, which is approximately sixty miles north of the Minneapolis/St. Paul metropolitan area and seventy miles south of the Duluth metropolitan area. In addition to the main office in Sandstone, the bank operates full-service branch locations in Askov and Kerrick, Minnesota. During the evaluation period, the bank also operated a loan production office (LPO) in Hinckley, Minnesota. FNBN does not operate any deposit-taking automated teller machines (ATMs). For an eighteen-month phase during the evaluation period, FNBN operated two additional full-service branches. These branches were obtained as a result of a merger with an affiliate bank and subsequently sold. We did not consider the performance of these branches in our evaluation as the bank only operated them temporarily. We focused on the lending activities of the main office and branch locations as they represent the ongoing activities of the bank.

FNBN is 100 percent owned by JDOB, Incorporated, a two-bank holding company with total assets of approximately \$7.7 million.

FNBN's primary lending focus continues to be residential real estate and commercial lending. As of June 30, 2003, FNBN's \$43 million loan portfolio was comprised of: \$17 million in residential real estate loans (40%), \$13 million in commercial and commercial real estate loans (32%), \$6 million in consumer loans (14%), \$3 million in construction loans (6%), and \$3 million in agricultural loans (6%). Total net loans represent 73% of total assets. For purposes of this evaluation, we considered residential real estate and commercial loans to be the primary product lines.

There are no legal, financial, or regulatory impediments limiting the bank's ability to meet the credit needs of its assessment area. FNBN was rated "Satisfactory" as of the prior CRA evaluation dated May 10, 1999.

## **DESCRIPTION OF THE ASSESSMENT AREA**

FNBN's assessment area (AA) is composed of fourteen contiguous block numbering areas (BNAs) located in east-central Minnesota, including all six BNAs in Pine County, one BNA in Aitkin County, two BNAs in Carlton County, and three BNAs in Kanabec County. In the AA, two BNAs are designated as moderate-income and twelve are middle-income. No low- or upper-income BNAs are located in the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

According to 1990 U.S. Census Data, the total population for the assessment area is 44,413 persons. Approximately 68 percent of the housing units in the AA are occupied, with 56 percent being owner occupied. The 1990 Census Data reported a Median Family Income of \$43,063, while the updated Department of Housing and Urban Development's (HUD) 2002 Median Family Income is \$48,500. The AA has approximately 11% of families reporting income below the poverty level (less than 30 percent of the Median Family Income). The following table summarizes the income levels of the geographies and families located within the bank's

assessment area:

<b>Income Distribution of Geographies and Families</b>							
Number of Block Numbering Areas				Percentage of Families by Income Level			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
0	2	12	0	22%	20%	24%	34%

Source: U.S. Census Data (1990)

Competition from other financial institutions operating in the AA is moderate. Moose Lake Federal Credit Union operates a full-service branch in the city of Sandstone. In addition, several state and national banks and credit unions maintain main or branch offices within FNBN's AA.

Economic conditions within the AA are stable. Unemployment in Pine County is 5.6 percent as of September 30, 2003, which is higher than the average of the state of Minnesota of 4.4 percent, but slightly lower than the national average of 5.8 percent. Major employers in the AA continue to be the Grand Casino and Resort in Hinckley, the Federal Correctional Institution in Sandstone, the school districts in Sandstone and Hinckley, and the Pine County Medical Center.

Examiners contacted a city official to gain additional perspective on the AA. The contact indicated that the primary credit needs of the community continue to be small business, residential real estate (primarily refinance and home improvement), and general purpose consumer loans. It was the contact's opinion that the financial institutions in the area are adequately meeting the credit needs of the community.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

FNBN's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 76 percent over the 17 quarters from June 30, 1999 to June 30, 2003.

FNBN's net loan-to-deposit ratio is reasonable when compared with other community banks of similar size (with total assets between \$55 million and \$95 million) in the assessment area. FNBN ranks fifth among a total of seven similarly situated banks chartered in the assessment area. The average quarterly net loan-to-deposit ratio for comparison banks is 82 percent and ranged from 61 percent to 104 percent over the same 17 quarters from June 30, 1999 to June 30, 2003.

### **Lending in Assessment Area**

FNBN originated a substantial majority of residential real estate and commercial loans to borrowers located in its assessment area. Based on a random sample of residential real estate

loans originated between March 31, 1999 and December 31, 2002, 90 percent by both number and dollar amount were originated to borrowers located within the designated assessment area. By analyzing a sample of commercial loans, we determined that a majority of these loans originated were to borrowers located in the assessment area. Of the commercial loans originated from March 31, 1999 to December 31, 2002, 80 percent by number and 70 percent by dollar amount were made to borrowers in the assessment area. The following table shows the volume of loans originated inside the assessment area by number and dollar amount:

<b>Lending in Assessment Area by Number and Dollar Amount</b>		
Type of Loan	Percent of Number	Percent of Dollars
Residential Real Estate	90%	90%
Commercial	80%	70%
<b>Total</b>	<b>85%</b>	<b>76%</b>

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

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

FNBN's distribution of loans to borrowers of different incomes and businesses of different sizes is strong. Performance in its primary product lines of residential real estate and commercial lending exceeds the community demographics for loans to low- and moderate-income borrowers and businesses of different sizes.

FNBN's distribution of residential real estate loans to borrowers of different income levels reflects excellent performance. FNB originated 18 percent by number and dollar volume of its residential real estate loans to low-income borrowers compared to the community demographic of 22 percent. Performance was particularly strong with regard to moderate-income borrowers, with 41 percent by number and 29 percent by dollar volume of residential real estate loans originated to moderate-income borrowers compared to the community demographic of 20 percent. The following table compares the bank's residential real estate lending activity by borrower income level to community demographics:

<b>Borrower Distribution of Residential Real Estate Loans by Income Level</b>					
Borrower Income Level	Number of Loans	Percent of Loans by Number	Dollar Amount (000s)	Percent by Dollar Amount	Percent of Families in AA

Low	4	18%	\$182,159	18%	22%
Moderate	9	41%	\$301,158	29%	20%
Middle	4	18%	\$191,626	18%	24%
Upper	5	23%	\$365,400	35%	34%
<b>Total</b>	<b>22</b>	<b>100%</b>	<b>\$1,040,343</b>	<b>100%</b>	<b>100%</b>

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (1990)

The distribution of commercial loans to businesses of different revenue sizes is also strong and meets community demographics. Based on the sample of loans, FNBN originated 95 percent by number and 97 percent by dollar volume of its commercial loans to businesses with annual revenues less than \$1 million. This is compared to 2002 assessment area demographics of 95 percent of reporting businesses having annual revenues less than \$1 million. The following table compares the bank's commercial lending activity by borrower revenue size to community demographics:

<b>Borrower Distribution of Commercial Loans by Revenue Size</b>					
Annual Gross Revenues	Number of Loans	Percent by Number	Dollar Amount	Percent by Amount	Business Demographic Data
Less than \$100,000	12		\$374,341		
\$100,000 - \$250,000	2		\$77,868		
\$250,000 - \$500,000	4		\$407,276		
\$500,000 - \$1,000,000	2		\$900,849		
Total, Revenues < \$1,000,000	20	95%	\$1,760,334	97%	95%
Total, Revenues > \$1,000,000	1	5%	\$58,000	3%	5%
<b>Total</b>	<b>21</b>	<b>100%</b>	<b>\$1,818,334</b>	<b>100%</b>	<b>100%</b>

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

\*Note: Business demographic data is for reporting companies only. In the assessment area, 24% of businesses did not report their revenue.

### **Geographic Distribution of Loans**

FNBN's geographic distribution of loans throughout the assessment area is strong. Specifically, the origination of commercial and residential real estate loans is impressive when compared to the demographics of the AA and includes lending in most BNAs.

Examiners sampled twenty-two residential real estate loans and twenty-one commercial loans to

borrowers in the bank's assessment area that were originated between January 1, 2000 and December 31, 2002. Loan distribution in the moderate-income block numbering areas (BNAs) is strong when compared to the demographics of the assessment area, as shown in the following tables:

<b>Geographic Distribution of Residential Real Estate Loans by BNA Income Level</b>					
BNA Income Level	Number	Percent by Number	Dollar Amount	Percent by Amount	Percent of Owner-Occupied Homes by BNA Category
Low	0	0%	\$0	0%	0%
Moderate	6	27%	\$357,838	34%	10%
Middle	16	73%	\$682,504	66%	90%
Upper	0	0%	\$0	0%	0%
<b>Totals</b>	<b>22</b>	<b>100%</b>	<b>\$1,040,342</b>	<b>100%</b>	<b>100%</b>

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (1990)

<b>Geographic Distribution of Commercial Loans by BNA Income Level</b>					
BNA Income Level	Number of Loans	Percent by Number	Dollar Amount	Percent by Amount	Percent of Businesses by BNA Category
Low	0	0%	\$0	0%	0%
Moderate	6	29%	\$259,079	14%	11%
Middle	15	71%	\$1,559,255	86%	89%
Upper	0	0%	\$0	0%	0%
<b>Totals</b>	<b>21</b>	<b>100%</b>	<b>\$1,818,334</b>	<b>100%</b>	<b>100%</b>

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

### **Responses to Complaints**

Neither FNBN nor its regulatory agency has received complaints regarding the bank's CRA performance since the last CRA evaluation.

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

We found no evidence of illegal discrimination or other illegal credit practices.