



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Proctor
Charter Number 11125**

**211 Second Street
Proctor, MN 55810**

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

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The First National Bank of Proctor (FNB) has strong lending penetration to low- and moderate-income borrowers.
- The distribution of loans throughout the assessment area is reasonable.
- FNB originates a reasonable volume of loans within its assessment area given its small size and limited staff.

DESCRIPTION OF INSTITUTION

The First National Bank of Proctor (FNB) is a \$19 million institution located in northeastern Minnesota. FNB has one office in Proctor, Minnesota (population 3,000) which is located adjacent to Duluth, Minnesota (population 87,000). FNB does not operate any automated teller machines. FNB's primary lending products include residential real estate and consumer loans. As of June 30, 2002, the \$9 million loan portfolio was composed of \$5.8 million in residential real estate loans (64.3% of total loans), \$1.6 million in consumer loans (18.2%), \$750 thousand of commercial loans (8.3%), \$726 thousand of commercial real estate loans (8.0%), and \$111 thousand of loans to state and political subdivisions (1.2%). Net loans and leases compose 48% of FNB's \$19 million in total assets.

There are no legal or financial constraints on FNB that would inhibit its CRA performance. FNB's last CRA evaluation dated June 5, 1997 rated its performance as "satisfactory".

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) consists of forty-five census tracts (CT) covering approximately the southern half of St. Louis County. These CTs were also included in the AA evaluated for FNB's June 5, 1997 CRA evaluation. The AA meets the requirements of the regulation. The 2002 updated median family income for the AA is \$50,800 from the Department of Housing and Urban Development. The median family income per the 1990 census was \$30,561. St. Louis County is included in the Duluth-Superior, MN-WI Metropolitan Area #2240.

The income designation of the 45 CTs is as follows:

Income Designation	# of CTs	% of total CTs
Low	6	13%
Moderate	10	22%
Middle	20	45%
Upper	9	20%

The AA population is approximately 122,000 based on 1990 census data. The bank's main office is located in the City of Proctor which itself lies primarily within a middle-income CT.

Approximately 63% of all AA housing units are owner occupied. The June 2002 unemployment rate for the Duluth/Superior metropolitan area was 5% according to the Minnesota Workforce Center. Eighteen percent families residing in the AA are categorized as low-income while 17% are categorized as moderate-income. Middle- and upper-income families compose 23% and 42% of AA families, respectively.

We contacted a Duluth-area real estate broker as part of this CRA evaluation. The broker described the housing market in the City of Proctor and surrounding area as excellent. Residential real estate marketing times are short with high demand and short supply of affordable housing units. The broker also stated the involvement of local financial institutions in the Proctor area is good with local institutions serving as active participants in meeting community credit needs. Another recent community contact expressed concern about the aging housing stock and the shift in employment from higher paying manufacturing, mining, and shipping occupations to lower paying service, tourism, and retail jobs. The healthcare, education, and government sectors are major employers in the AA. The Duluth Missabe and Iron Range Railroad Company is also a significant employer within the City of Proctor.

There are numerous other financial institutions in FNB's AA. Local competition includes 12 banks, 13 credit unions, and numerous mortgage companies with offices in the AA. The Proctor Federal Credit Union is FNB's most direct competitor as it is also located within the City of Proctor. Other financial institutions provide strong competition for customers near their offices, many of which are located in the City of Duluth.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending to Borrowers of Different Incomes

FNB's distribution of loans to borrowers of different income levels is good. Importantly, FNB demonstrated strong lending penetration to low- and moderate-income borrowers. The following below represents data from a random sample of 20 loans secured by residential real estate including home equity, refinance, and purchase loans. Income data on families and households was compiled from census data and the Department of Housing and Urban Development.

Income Level of Borrowers	Loan Originations by Dollar	Loan Originations by Number	Families in Assessment Area
Low (< \$24,900)	19%	30%	18%
Moderate (\$24,900-39,839)	6%	10%	17%
Middle (\$39,840-59,759)	56%	40%	23%
Upper (>\$59,760)	19%	20%	42%

The table below represents data from a random sample of 20 consumer-purpose loans.

Income Level of Borrowers	Loan Originations by Dollar	Loan Originations by Number	Households in Assessment Area
Low (< \$24,900)	17%	20%	24%
Moderate (\$24,900-39,839)	22%	30%	15%
Middle (\$39,840-59,759)	16%	20%	17%
Upper (>\$59,760)	45%	30%	42%

Geographic Distribution of Loans

The geographic distribution of loans throughout the AA is reasonable considering the location of competing financial institutions, distance of individual CTs from the FNB's single office, and the demographic and geographic characteristics of the AA. FNB's small size in terms of assets and staff and the numerous competitors within the AA limit the bank's ability to penetrate geographies outside the CT surrounding its single office. FNB's loan originations are concentrated in the CT containing FNB's main office, which is a middle-income tract.

The real estate loan sample reflected strong lending penetration to moderate-income geographies. The overall geographic distribution of sampled residential real estate loans was as follows:

Income Level of Geography	Originations by Dollar	Originations by Number	% of AA Owner-Occupied Housing Units
Low	0%	0%	2%
Moderate	15%	15%	12%
Middle	80%	81%	56%
Upper	5%	3%	30%

The consumer loan sample reflected no penetration within low- or moderate-income geographies. However, we reviewed a sample of the bank's new loan reports for the years 2000 through 2002 and found consumer lending activity in several different moderate-income CTs. The geographic distribution of sampled consumer loans was as follows:

Income Level of Geography	Originations by Dollar	Originations by Number	% Households in AA
Low	0%	0%	9%
Moderate	0%	0%	17%
Middle	90%	95%	49%
Upper	10%	5%	25%

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable. The bank's average loan-to-deposit ratio over the 21 quarters ending June 2002 is 50.6%. This ratio is the lowest average loan-to-deposit ratio among

the four community banks with main offices in FNB's AA, each with total assets less than \$50 million. The average loan-to-deposit ratio of the three peer banks for the eleven quarters ending March 2002 was 89.6%. (Only eleven quarters of data was available for peer institutions.) FNB's average loan-to-deposit ratio was 53.3% for these eleven quarters ranking it last of the four community banks. Although FNB's quarterly average loan-to-deposit ratio is low relative to the peer group's average quarterly ratio, one peer institution with an unusually high average loan-to-deposit ratio of 113% skews the overall peer average to a higher ratio. FNB's loan-to-deposit ratio has increased during this assessment period. It rose from 47% as of June 1997 to 53.6% as of June 2002. FNB's lower loan-to-deposit ratio is in part a function of its low legal lending limit and the fact that FNB engages in less commercial and commercial real estate lending which is generally comprised of larger dollar loans.

Lending in Assessment Area

FNB originates a majority of loans within its AA. We analyzed samples of residential real estate and consumer loans to assess the level of lending within the AA due to the lack of internal bank reports. FNB originated 95% of the total number of residential real estate loans and 97% of the dollar volume of residential real estate loans in our sample within its AA. FNB originated 85% of the total number of consumer loans and 91% of the dollar volume of consumer loans in our sample within its AA.

Responses to Complaints

FNB has not received any CRA related complaints since its last CRA evaluation dated June 5, 1997.

Fair Lending Review

An analysis of 1996 to 2000 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on our analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1996.