



PUBLIC DISCLOSURE

July 22, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Gilbert
Charter Number 9262

2 North Broadway
Gilbert, MN 55741

Office of the Comptroller of the Currency
Minneapolis Field Office
222 9th Street 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 major factors supporting the First National Bank of Gilbert's rating are:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the borrowing needs of the assessment area.
- The bank originated a substantial majority of loans inside its assessment area.
- The distribution of residential real estate consumer loans and loans to borrowers of different incomes is reasonable.
- The geographic distribution of residential and consumer loans represents excellent dispersion in the assessment area.

SCOPE OF EXAMINATION

We evaluated the First National Bank of Gilbert's (FNB Gilbert) Community Reinvestment Act (CRA) performance from October 1, 2006 to June 30, 2013. In order to evaluate lending activities within FNB Gilbert's assessment area, we selected primary loan products based on loan originations from January 1, 2011 to June 30, 2013 (evaluation period). We determined that residential and consumer loans were the bank's primary products based on the number and dollar amount of loan originations. However, more weight was given to residential real estate lending in our analysis as these loans totaled 59% of all originations during the evaluation period.

Our analysis was divided into two time periods due to the 2010 census data being published. We analyzed the bank's lending performance using 2000 census data for comparison purposes for loans that were originated from January 1, 2011 to December 31, 2011. We used 2010 census data for comparison purposes for loans that were originated from January 1, 2012 to June 30, 2013. We selected a random sample of 20 loans from each primary product in each time period. Additional residential loans were added to the 2012 sample for analysis purposes.

DESCRIPTION OF INSTITUTION

FNB Gilbert is an independently owned, \$31 million full service bank located in Gilbert, Minnesota. The community of Gilbert is located in central St. Louis County, in northeastern Minnesota. The bank is affiliated with Miners National Bank of Eveleth, located in Eveleth, Minnesota, through common ownership. The bank owns one Automated Teller Machine (ATM) and it is located on the bank's premises. The bank does not have any branches.

FNB Gilbert is a rural bank that offers traditional banking products and services. Its primary business focus is consumer and residential lending. As of June 30, 2013, FNB Gilbert's gross loans and leases totaled \$13.9 million or 44% of the bank's total assets. As of this date, the loan portfolio was comprised of the following: \$7.9 million in residential loans (57%), \$4.2 million in commercial loans (30%), \$1.7 million in consumer loans (12%), and \$154 thousand in agricultural loans (1%). The bank's investment portfolio totaled \$15.4 million or 49% of total assets as of June 30, 2013.

FNB Gilbert was previously rated Outstanding at the last CRA examination dated November 17, 2006. There are no financial, legal, or other factors that impede the bank's ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB Gilbert's assessment area includes 23 contiguous census tracts located in central St. Louis County. The bank's assessment area is located in the Duluth, MN-WI Metropolitan Statistical Area (MSA) #20260. All of the census tracts are either designated as moderate- or middle-income levels. There are no low- or upper-income level census tracts in the assessment area. The assessment area meets regulatory requirements.

According to the 2010 U.S. Census Data, the total population for the assessment area is 65,058. The 2010 Median Family Income (MFI) for the assessment area is \$59,812. The assessment area has a total of 18,321 families and 30,365 households. Low-income families comprise 22.78% of all families residing in the assessment area, with 9.28% living below the poverty line. Moderate-income families comprise 20.77%, middle-income families comprise 22.79%, and upper-income families comprise 33.66% of all the families residing in the assessment area.

Economic conditions in the area are considered stable. Large employers in the Gilbert area include DeCare Dental, Arcelor Mittal Mincora Mine, Inc., and United Taconite. Major industries in the assessment area include taconite mining and industries related to iron mines. The downturn of the economy contributed to decreases in mining production levels in late 2000. However, during the last couple of years, the mining industry has rebounded with production increasing closer to normal levels. Per the Bureau of Labor Statistics, the annual unemployment rate in 2012 for the MSA #20260 was 6.7%. This is slightly higher than the 2012 Minnesota unemployment rate of 5.6%.

FNB Gilbert faces a considerable amount of competition from numerous banks that operate in St. Louis County. Including FNB Gilbert, there are twenty-three financial institutions in St. Louis County. FNB Gilbert has a deposit market share of 0.78%, ranking nineteenth among the twenty-three institutions. However, many of the banks located in St. Louis County operate in the Duluth area which lessens the impact of competition relative to FNB Gilbert's assessment area.

The following table shows demographic and economic information for FNB Gilbert's assessment area:

Demographic and Economic Characteristics of the Gilbert Assessment Area	2000	2010
Population		
Number of Families	18,868	18,321
Number of Households	29,340	30,365
% of Low-Income Families	20.19%	22.78%
% of Moderate-Income Families	19.72%	20.77%
% of Middle-Income Families	24.78%	22.79%
% of Upper-Income Families	35.30%	33.66%
Geographies		
Number of Census Tracts	23	23
% of Low-Income Census Tracts	0.00%	0.00%
% of Moderate-Income Census Tracts	21.74%	30.43%
% of Middle-Income Census Tracts	78.26%	69.57%
% of Upper-Income Census Tracts	0.00%	0.00%
Median Family Income (MFI)		
2010 MFI for AA	\$59,812	
2011 HUD - Estimated MFI	\$61,500	
2012 FFIEC - Estimated MFI	\$62,300	
Economic Indicators		
2011 Unemployment Rate (St. Louis County)	7.3%	
2012 Unemployment Rate (St. Louis County)	6.7%	
Median Housing Value	\$57,544	\$102,668
% of Households Below Poverty Level	12.05%	14.23%

Source: 2000 and 2010 U.S. Census Data, 2011 HUD updated MFI, 2012 FFIEC updated MFI

In order to gather current information on the community and potential lending opportunities in the area, we contacted a community leader. We also discussed with the community contact whether the credit needs of the community were being met by financial institutions in the area. The community contact indicated that area financial institutions were meeting the credit needs of the community. He also stated that the primary credit needs in the area were loans for housing and consumer purposes.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB Gilbert does a satisfactory job of meeting the credit needs of its assessment area, including those of low- and moderate-income families given the size, assessment area, and economic factors.

Loan-to-Deposit Ratio

FNB Gilbert's loan-to-deposit ratio is reasonable based on the bank's size, financial condition, and borrowing needs of its customers. From October 1, 2006 through March 31, 2013, the quarterly loan-to-deposit (LTD) ratio steadily decreased from 65.14% to 48.63% and averaged 55.74%. The decline in the LTD ratio can be attributed to the low loan demand the bank experienced over the past few years. While loan demand has been increasing in 2012 and 2013, the amount of deposits has also been increasing causing the LTD to increase only slightly.

The following table depicts the average LTD ratios of similarly situated banks, defined as banks in the assessment area with total assets ranging from \$20 million to \$85 million. FNB Gilbert ranks third in average LTD ratio out of five similarly situated banks

NAME	Assets (as of 3/31/2013) 000's	Average LTD Ratio
The First National Bank of Buhl	23,173	86%
Northern State Bank of Virginia	58,411	79%
The First National Bank of Gilbert	32,351	56%
The Miners National Bank of Eveleth	57,146	46%
First National Bank of Chisholm	84,848	38%

Source: Call Report data

Lending in Assessment Area

The substantial majority of loans originated by FNB Gilbert were to borrowers located inside the assessment area. The following table details the lending activity during the evaluation period.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer - 2011	20	100%	0	0%	20	\$138	100%	0	0%	\$138
Residential - 2011	16	89%	2	11%	18	\$718	73%	\$261	27%	\$979
Consumer - 2012/2013	19	95%	1	5%	20	\$109	86%	\$18	14%	\$127
Residential - 2012/2013	17	85%	3	15%	20	\$2,600	79%	\$698	21%	\$3,298
Totals	72	92%	6	8%	78	\$3,565	78%	\$977	22%	\$4,542

Source: Loan sample

Lending to Borrowers of Different Incomes

FNB Gilbert has reasonable penetration of loans to borrowers of different income levels given the local economic conditions.

Residential Real Estate Loans

In 2012/2013, the bank had reasonable penetration of residential loans to borrowers of different income levels. The bank did have a lower number of residential loans to low-income borrowers than the demographics. However, when considering the amount of families living below the poverty line (9.28%) and the higher percentage of loans to moderate-income families, the distribution of residential loans to low-income borrowers is reasonable. The following table compares the bank’s residential real estate lending activities by the borrower income level to the local demographics.

2012/2013 - Borrower Distribution of Residential Real Estate Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Residential Loans (sample of 32)	% 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
		23%	6%	21%	34%	23%	28%	33%

Source: Loan sample and 2010 U.S. Census data.

In 2011, the bank had reasonable penetration of residential loans to borrowers of different income levels. When considering the amount of families living below the poverty level (7.53%), the distribution of residential loans to low-income borrowers is reasonable. The following table compares the bank’s residential real estate lending activities by the borrower income level to the local demographics.

2011 - Borrower Distribution of Residential Real Estate Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Residential Loans	% 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
		20%	6%	20%	19%	25%	25%	35%

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

Consumer Loans

In 2012/2013, the bank had reasonable penetration of consumer loans to individual borrowers of different income levels. The distribution of consumer loans to households of different income levels was similar to the demographics for moderate-income borrowers and slightly below the demographics for low-income borrowers. The following table compares the bank’s consumer lending activities by the borrower income level to the local demographics.

2012/2013 - Borrower Distribution of Consumer Loans in Assessment Area								
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	28%	25%	16%	15%	19%	40%	37%	20%

Source: loan sample and 2010 U.S. Census data.

In 2011, the bank had reasonable penetration of consumer loans to individual borrowers of different income levels. The bank was below the demographics when compared to borrowing to low income households. However, when the percentage of households living below the poverty rate (12.05%) and the high percentage of loans made to moderate-income households (40%) are taken into consideration, the distribution of consumer loans to low-income households is reasonable. The following table compares the bank’s consumer loan lending activities by the borrower’s income level to the local demographics.

2011 - Borrower Distribution of Consumer Loans in Assessment Area								
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	25%	10%	17%	40%	19%	35%	39%	15%

Source: loan sample and 2000 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans indicates excellent dispersion throughout the different income level census tracts. The assessment area did not contain any low-income census tracts and therefore, our analysis focused on the borrowing in moderate-income census tracts. There were no conspicuous gaps in the banks geographic distribution of loans.

Residential Real Estate Loans

In 2012/2013, the geographic distribution of residential real estate loans reflects an excellent dispersion of loans throughout the different income level census tracts. The lending to moderate-income census tracts exceeded the percentage of owner-occupied housing within the census tract. The following table compares the bank’s residential real estate lending activity by the census tract income level to the local demographics.

2012 - Geographic Distribution of Residential Real Estate Loans in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential Loans	N/A	N/A	22%	30%	78%	70%	N/A	N/A

Source: loan sample and 2010 U.S. Census data.

In 2011, the geographic distribution of residential real estate loans reflects an excellent dispersion of loans throughout the different income level census tracts. The lending to moderate-income census tracts significantly exceeded the percentage of owner-occupied housing within the census tract. The following table compares the bank’s residential real estate lending activity by the census tract income level to the local demographics.

2011 - Geographic Distribution of Residential Real Estate Loans in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential Loans	N/A	N/A	18%	38%	82%	63%	N/A	N/A

Source: loan sample and 2000 U.S. Census data.

Consumer Loans

In 2012/2013, the geographic distribution of consumer loans reflects an excellent dispersion throughout the different income level census tracts. Consumer lending within the moderate-income level census tract significantly exceeded the percentage of households within the census tract. The following table compares the bank’s consumer lending activity by the census tract income level to the local demographics.

2012 - Geographic Distribution of Consumer Loans in Assessment Area								
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	N/A	N/A	27%	40%	73%	60%	N/A	N/A

Source: Loan sample and 2010 U.S. Census data.

In 2011, the geographic distribution of consumer loans reflects an excellent dispersion throughout the different income level census tracts. Consumer lending within the moderate-income level census tract exceeded the percentage of households within the census tract. The following table compares the bank’s consumer lending activity by the census tract income level to the local demographics.

2011 - Geographic Distribution of Consumer Loans in Assessment Area								
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	N/A	N/A	20%	30%	80%	70%	N/A	N/A

Responses to Complaints

FNB Gilbert has not received any CRA-related complaints since the previous CRA examination

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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