



PUBLIC DISCLOSURE

September 22, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Western National Bank
Charter Number 6352

210 2nd Street, NW
Cass Lake, MN 56633

Office of the Comptroller of the Currency

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 Outstanding

The major factors supporting this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area (AA).
- The bank originated a majority of loans within its AA.
- The distribution of loans reflects excellent penetration among borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the bank's AA.

SCOPE OF EXAMINATION

This evaluation entailed a full scope review of Western National Bank's (WNB's) performance in meeting the credit needs of its community. We assessed performance pursuant to the Community Reinvestment Act (CRA) over an evaluation period from May 18, 2009 through September 22, 2014. We determined the bank's primary loan products based on loan originations for the period from January 1, 2012 through December 31, 2013 (sample period). The following table depicts the volume of loans originated and purchased during this time:

Loan Originations in 2012 and 2013		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	81.46%	13.52%
Commercial	9.83%	53.37%
Residential RE	8.71%	33.11%
Agriculture	0.00%	0.00%

Source: Bank loan origination report for 2012 and 2013

Based on this analysis, we determined that consumer and commercial loans are the bank's primary loan products. Combined they account for over 91 percent of loans originated by number and 67 percent by dollar amount. We placed more weight on consumer loans as they represented the highest percentage of originations by number during the sample period.

DESCRIPTION OF INSTITUTION

WNB is a \$31 million intrastate national bank located in Cass Lake, Minnesota (MN). The bank operates one full-service office at 210 Second Street Northwest, and one deposit-taking automated teller machine (ATM) which is maintained at a separate

location in Cass Lake. WNB serves an area within three adjacent counties in north central MN.

WNB has a two-tiered holding company structure, with Western Bancorporation Inc. being the top tier and Cass Lake Company the second tier. Western National Bank in Duluth, MN is the only affiliate. Affiliate activities have no impact on WNB's CRA performance and our assessment focused solely on WNB's activities. The bank provides standard products and services to serve customers personal and business banking needs including deposit accounts, consumer loans, mortgage loans, and commercial loans. The bank has not opened or closed any branches or ATMs since the last CRA assessment. There was no merger or acquisition activity during the evaluation period.

As of June 30, 2014, WNB's loan portfolio totaled \$21.4 million and was comprised of \$10.4 million (49 percent) in commercial loans, \$8.9 million (42 percent) in residential real estate loans, and \$1.8 million (9 percent) in consumer loans. Net loans represented 67 percent of total assets. As of the same date, the bank's investment portfolio totaled \$6.4 million, or 21 percent of total assets, and consisted entirely of U.S. Agency or Agency-sponsored obligations. The bank's Tier 1 Capital at June 30, 2014 was \$2.7 million.

WNB received an "Outstanding" rating at its May 18, 2009 CRA evaluation. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREA

WNB's AA consists of 19 whole contiguous census tracts in the northern portion of Cass County, the eastern portion of Hubbard County, and the southern portion of Beltrami County. The AA is comprised of five moderate- and 14 middle-income census tracts. Based on 2010 U.S. Census data the AA had a population of 64,611. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts. The table on the following page illustrates demographic and economic characteristics of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE CASS LAKE NON-MSA AA	
Population	
Number of Families	17,862
Number of Households	26,739
% of Low-Income Families	23.35%
% of Moderate-Income Families	18.51%
% of Middle-Income Families	22.27%
% of Upper-Income Families	35.88%
Geographies	
Number of Census Tracts	19
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	26.32%
% Middle-Income Census Tracts	73.68%
% Upper-Income Census Tracts	0.00%
Median Family Income (MFI)	
2010 MFI for AA	\$58,135
2013 FFIEC-Adjusted MFI	\$61,700
Economic Indicators	
2013 Unemployment Rate	7.40%
2010 Median Housing Value	\$178,246
% of Households Below Poverty Level	14.22%

Source: 2010 U.S. Census data with updated information when available

Major employers in the AA include the Minnesota Chippewa Tribe, Leech Lake Band of Chippewa, and North Country Health Services, as well as a number of lake resorts. Industries in the area include county and tribal government, manufacturing, tourism, service, retail, and medical.

The AA continues to face economic challenges due to higher poverty and unemployment rates. The Department of Labor reports 2013 annual unemployment rates for Beltrami, Cass, and Hubbard Counties at 6.6 percent, 8.1 percent, and 7.5 percent, respectively. The average 2013 annual unemployment rate for the AA is 7.4 percent which is well above the 5.1 percent statewide average.

Competition from other financial institutions is moderate. Including WNB, there are 18 deposit-taking financial institutions located in Beltrami, Cass, and Hubbard counties. WNB ranks 12th in deposit market share according to the June 30, 2013 FDIC Deposit Market Share Report with 1.75 percent market share. Based on deposit market share data, the bank's primary competitors are First National Bank of Bemidji and First National Bank of Walker.

We contacted a community development organization in the AA to gain a better understanding of the local economy, area credit needs, and involvement of local financial institutions. The representative stated that primary credit needs within the community are in consumer lending as well as various commercial types of lending. The contact indicated that local financial institutions are adequately meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

WNB's LTD ratio is reasonable relative to the bank's size, financial condition, and the LTD ratio of other similarly situated banks. The bank's LTD ratio averaged 70.02 percent over the 21 quarters since the last CRA evaluation and ranged from a low of 51.08 percent to a high of 84.33 percent. The bank's LTD ratio variations are due to seasonal fluctuations of its deposit base. Similarly situated banks for comparison purposes operate within the AA and have similar assets sizes ranging from \$30 million to \$80 million. WNB's quarterly average LTD ratio ranks second when compared to three other similarly situated banks in the AA. The following table illustrates LTD information among similarly situated banks:

Institution (Headquarters)	Assets as of 6/30/14 (\$000s)	Average LTD Ratio (%)
First State Bank of Bigfork	\$65,426	82.61%
Western National Bank	\$31,284	70.02%
First National Bank-Bagley	\$79,241	59.35%

Source: Call report data as of June 30, 2014.

Lending in Assessment Area

WNB originated a majority of its loans within the AA. Based on our sampling of consumer and commercial loans, WNB originated 87.50 percent of loans by number and 52.39 percent by dollar volume within the AA. The larger dollar volume of loans outside the AA consists primarily of commercial participations purchased from the WNB-Duluth charter. The table on the following page shows loans originated in the AA during the evaluation period.

Lending in the Cass Lake Non-MSA AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	19	95.00%	1	5.00%	20	\$ 349	84.91%	\$ 62	15.09%	\$ 411
Commercial	16	80.00%	4	20.00%	20	\$1,445	47.96%	\$1,568	52.04%	\$3,013
Totals	35	87.50%	5	12.50%	40	\$1,794	52.39%	\$1,630	47.61%	\$3,424

Source: Commercial and consumer loan samples.

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

Overall, WNB’s lending to borrowers of different income levels and to businesses of different sizes reflects excellent penetration in the AA.

Consumer Loans

WNB’s distribution of consumer loans reflects excellent penetration of moderate-income borrowers and reasonable penetration of low-income borrowers. The bank’s lending performance meets the demographic comparator for low-income households in the AA and significantly exceeds the percentage of moderate-income households in the AA. The following table shows the distribution of consumer loans among borrowers of different income levels in the AA:

Borrower Distribution of Consumer Loans in the Cass Lake Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	25.97%	25.00%	17.06%	40.00%	19.04%	25.00%	37.93%	10.00%

Source: Loan Sample; 2010 US Census Data

Business Loans

The distribution of business loans reflects excellent penetration among businesses of different sizes. WNB’s lending to businesses with gross revenues of \$1 million or less (small business) exceeds the percentage of small businesses in the AA by number of loans. The percentage of loans by dollar volume to small businesses at 68 percent is below the demographics, however, this is attributed to one very large dollar loan to a local business with revenues greater than \$1 million. The demographic data contains a high level of businesses of unknown size, as they chose not to report the information.

Although this 18 percent could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The following table shows the distribution of business loans among businesses of different sizes in the AA:

Borrower Distribution of Loans to Businesses in the Cass Lake Non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	78.67%	3.48%	17.85%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Bank Loans in AA by \$	67.85%	32.15%	0.00%	100%

Source: Loan sample; 2013 Dunn & Bradstreet Data

Geographic Distribution of Loans

WNB’s geographic distribution of consumer and commercial loans in the AA reflects excellent dispersion throughout census tracts of different income levels. Our review of consumer and commercial loans within the AA identified no lending gaps of concern.

There are no low-income census tracts in the AA. Therefore, our analysis focused on WNB’s performance in the moderate-income tracts.

Consumer Loans

WNB’s lending in the moderate-income census tracts reflects excellent dispersion and exceeds the demographic comparator of AA households located in those tracts by 13 percent. The following table highlights WNB’s consumer loan originations by number in comparison to the demographics of the AA:

Geographic Distribution of Consumer Loans in the Cass Lake Non-MSA AA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	0.00%	0.00%	21.57%	35.00%	78.43%	65.00%	0.00%	0.00%

Source: Loan Sample; 2010 US Census Data

Business Loans

WNB’s lending to businesses in the moderate-income census tracts significantly exceeds the demographics of the AA by nearly 40 percent. The table on the following page highlights WNB’s commercial loan originations by number in comparison to the demographics of the AA.

Geographic Distribution of Loans to Businesses in the Cass Lake Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	0.00%	0.00%	22.07%	60.00%	77.93%	40.00%	0.00%	0.00%

Source: Loan Sample; 2010 US Census Data

Responses to Complaints

WNB has not received any CRA-related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA 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.