

## **PUBLIC DISCLOSURE**

July 19, 1999

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank in Mahnomen  
Charter Number: 12941**

**103 North Main Street  
Mahnomen, Minnesota 56557**

**Office of the Comptroller of the Currency  
Alexandria Field Office  
1309 Highway 29 North, P.O Box 849  
Alexandria, Minnesota 56308**

**NOTE: 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.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank in Mahanomen** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 19, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CRA Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**. The following factors highlight The First National Bank in Mahanomen's performance:

- C The loan-to-deposit ratio is reasonable and is comparable to other banks of similar size situated in its assessment area.
- C The bank originates a majority of its loans within its assessment area.
- C The bank has good loan penetration among businesses, farms, and consumers of different revenue sizes and incomes.

## DESCRIPTION OF INSTITUTION

The First National Bank in Mahnomen (FNB) is a \$38 million bank in northwestern Minnesota in Mahnomen County. FNB is located in the city of Mahnomen, which is also the county seat. FNB has one office with an ATM on the premises and a drive-up teller window. The bank is owned by Mahnomen Bancshares, a one-bank holding company.

FNB is a full service institution offering traditional loan and deposit products and services. Total loans as of June 30, 1999 are \$18,622. The following illustrates the bank's loan mix.

<b>Loan Type</b>	<b>Dollar Volume</b>	<b>% of Total Loans</b>
<b>Residential Real Estate</b>	\$3,538	19%
<b>Real Estate - Other</b>	\$1,404	8%
<b>Agricultural Loans</b>	\$4,344	23%
<b>Commercial &amp; Industrial</b>	\$4,328	23%
<b>Loans to Individuals</b>	\$5,008	27%
<b>Total</b>	\$18,622	100%

Primary competition in the assessment area (AA) includes five banks and a Farm Credit Services office. There are no legal or financial factors impeding FNB's ability to help meet the credit needs of the community. The bank was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination, June 19, 1997.

#### **DESCRIPTION OF FNB's ASSESSMENT AREA**

FNB's AA area includes all of Mahnomen County and portions of Norman and Becker Counties. The area consists of four contiguous Block Numbering Areas (BNAs). Cities in the assessment area include Mahnomen, Twin Valley, Waubun, Ogema, and Gary. Population of the area is approximately 12,000 and stable.

The area median family income is \$29,933 or 72% of the out-state median income of \$41,600. The assessment area consists of two moderate and two middle-income BNAs. Family incomes within the assessment area are: 33% low, 22% moderate, 21% middle, and 24 % upper income. Approximately 20 % of the population is below poverty level. The assessment area complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income areas.

The bank's AA is dominated by agriculture and agriculturally related businesses. This industry has experienced several poor growing seasons in recent years. However, over the recent period, the opening of the Shooting Star Casino resulted in increased employment and a general stabilization of the economy. In addition, the casino has spurred a number of other developments in the city of Mahanomen such as a shopping complex and a restaurant.

The major employer is the Shooting Star Casino which employs about 1000 people. Other large employers include the local school district, county government offices, the local hospital, and local agriculture related businesses..

FNB's AA includes the White Earth Indian Reservation. Large tracts of land on the reservation are owned by the White Earth Tribal Trust. Individual members of the reservation are not able to hold title to trust land but can obtain use rights for residential sites and other purposes. FNB cannot perfect a mortgage on trust-owned real estate which impedes real estate lending in a portion of its assessment area. FNB is working with the tribal council and reservation members to help meet their non-real estate credit needs.

The primary credit needs of the area include residential real estate, agriculture, and small business loans. We determined this by contacting a local city government official and the White Earth Reservation housing director.

## **DESCRIPTION OF SAMPLES**

We conducted a review of FNB's lending activities by reviewing bank reports and sampling various products. The bank's products include commercial, agricultural, real estate and consumer loans. We determined that the bank has three main products based on their number and volume of loans the bank made since our last assessment period and distribution of loans within the loan portfolio. Furthermore, we chose to sample residential real estate loans rather than commercial loans because the dollar volume of that category amounted to 19% of the bank's loan portfolio which is far larger than any single commercial loan sub-category. The following table depicts our loan sample.

	<b>Agricultural</b>	<b>Commercial *</b>	<b>Residential RE</b>	<b>Consumer</b>
<b>Number of Total Originations</b>	190	227	80	558
<b>Sample Size</b>	20	N/A	20	20
<b>% of Total Number Sampled</b>	11%	N/A	25%	4%
<b>Dollar Amount of Total Originations (000s)</b>	\$2,880	\$5,107	\$2,676	\$3,956
<b>Dollar Amount of Sample (000s)</b>	\$394	N/A	\$701	\$121
<b>% of Dollar Amount Sampled</b>	14%	N/A	26%	3%

Source - Loans originated from July 1, 1997 to June 30, 1999.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

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

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and lending opportunities within the AA. FNB's ratio has been stable and averaged 58% since the last CRA examination, June 19, 1997. The ratio ranks the bank fifth lowest out of six banks in its assessment area with ratios for the other banks ranging from 37% to 81%. The bank's loan volume is somewhat impaired by their inability to secure mortgages on tribal land. The majority of lending opportunities consist of small consumer loans.

### ***Lending in the Assessment Area***

FNB originates a majority of its loans within its AA. FNB codes its loan originations by BNA. An internal analysis of that data indicates that FNB extended 74% of the loans (by number) they originated from July 1, 1997 to June 30, 1999 to customers residing within their AA. Our sample of loans verifies that information is as illustrated in the following table.

<b>Lending Within the Assessment Area Loans Sampled</b>		
	Inside the AA	Outside AA
<b>Loans by Number</b>	48	12
<b>% of Total Number</b>	80%	20%
<b>Dollar Amount (000s)</b>	\$1,025	\$191
<b>% of Dollar Amount</b>	84%	16%

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

FNB has a good record of lending to individuals of different income levels and to businesses of different sizes. The following tables illustrate lending patterns within the agriculture, consumer instalment, and residential real estate portfolios.

FNB has a strong record of lending to farms of all sizes. Our sample of 20 agricultural loans totaling \$393,619 illustrates this record.

<b>Agricultural Loans *</b>		
<b>Annual Gross Sales (000's)</b>	<b>% Number of Loans Sampled</b>	<b>% Dollar Volume Sampled</b>
<b>\$100 or less</b>	<b>80%</b>	<b>91%</b>
<b>\$101 - \$250</b>	<b>20%</b>	<b>9%</b>
<b>\$251 - \$1,000</b>	<b>0%</b>	<b>0%</b>
<b>&gt; \$1,000</b>	<b>0%</b>	<b>0%</b>

\* - Loans originated from 7/1/97 to 6/30/99

Our sample of 20 consumer loans totaling \$12M and originating from July 1, 1997 to June 30, 1999 shows that FNB is doing a good job of lending to consumers of different levels, including low-and moderate-income borrowers.

<b>Consumer Loans</b>			
<b>Income Level</b>	<b>% Families in the AA (1990 Census Data)</b>	<b>% Number of Loans Sampled</b>	<b>% Dollar Volume of Loans Sampled</b>
<b>Low-Income &lt;50% Median Family Income *</b>	33%	80%	68%
<b>Moderate-Income at least 50% &lt; 80% Median Family Income *</b>	22%	10%	9%
<b>Middle-Income at least 80% &lt; 120% Median Family Income *</b>	21%	5%	11%
<b>Upper-Income 120% and &gt; Median Family Income *</b>	24%	5%	12%

\* 1999 Updated Minnesota Outstate income \$41,600

Residential real estate lending to low income individuals is low based on our sample of 20 residential real estate loans totaling \$701M, made from July 1, 1997 to June 30, 1999. However, a high percentage of the population is living below the poverty level and the amount of lower-cost housing stock is low. Therefore, the level of lending to all income categories is consistent with the area's income demographics and credit opportunities.

<b>Residential Real Estate</b>			
<b>Income Level</b>	<b>% Families in the AA (1990 Census Data)</b>	<b>% Number of Loans Sampled</b>	<b>% Dollar Volume of Loans Sampled</b>
<b>Low-Income &lt;50% Median Family Income *</b>	33%	15%	9%
<b>Moderate-Income at least 50% &lt; 80% Median Family Income *</b>	30%	30%	37%
<b>Middle-Income at least 80% &lt; 120% Median Family Income *</b>	21%	25%	22%
<b>Upper-Income 12% and &gt; Median Family Income *</b>	24%	30%	32%

\* 1999 Updated Minnesota Outstate income \$41,600

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment area. The following table illustrates the loans we sampled during our review.

<b>BNA Type</b>	<b>% BNA's</b>	<b>% of Population</b>	<b>% Number of Loans</b>	<b>% Dollar Volume of Loans</b>
<b>Moderate</b>	50%	48%	35%	23%
<b>Middle</b>	50%	52%	65%	77%

Source - Loans originated from July 1, 1997 to June 30, 1999.

The deviation between the sample and the percent of population in the moderate BNAs is the result of the bank not being able to file mortgage liens on the White Earth Indian Reservation. The moderate BNAs are primarily on the reservation where the bank is not actively making real estate loans.



**Record of Compliance with Anti-discrimination Laws**

Based on our review, the bank is complying with anti-discrimination laws. We found no substantive violations of the fair lending laws.

**Record of Response to Complaints**

FNB received no complaints concerning its performance in meeting AA area credit needs.