



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

January 05, 2009

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Elk River  
Charter Number: 8757

100 State Highway 55  
Maple Lake, MN 55358

Office of the Comptroller of the Currency

MINNEAPOLIS NORTH  
222 South Ninth Street 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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's rating include:

- A reasonable volume of lending, as highlighted by a quarterly average loan-to-deposit ratio of 72%.
- A substantial majority of loans originated within the assessment area (AA), 78% by number and 71% by dollar volume.
- Satisfactory levels of lending to borrowers of different income levels and businesses of different sizes near to or exceeding the demographics of the AA.
- Reasonable geographic distribution of lending throughout the AA, meeting or exceeding the demographics of the AA.
- An adequate level of qualified investments, community development services, and responsiveness to community development needs.

## **Scope of Examination**

We evaluated the bank's Community Reinvestment Act (CRA) performance under the Lending and Community Development tests as described in the Intermediate Small Bank CRA guidance. We performed a full-scope review on the bank's sole assessment area, described later in this report.

For the Lending Test, we evaluated the bank's loans to businesses and home mortgage loans. In particular, we focused our analyses upon commercial loans and residential real estate refinance loans as they remain the bank's two primary loan products. Commercial loans represent by far the largest volume of the bank's loan originations while residential real estate refinance loans represent the second largest amount. While other loan types may have been included in our analyses, these two primary loan products were weighted more heavily while establishing and supporting our conclusions.

For example, as one of the primary loan products has been reported under the Home Mortgage Disclosure Act (HMDA), our analyses of the bank's performance considered all HMDA data. The evaluation period was January 1, 2006 through December 31, 2008. We compared loan data against 2000 census data.

For analyses purposes, we relied upon the bank's (optional) collection of CRA loan data for loans to businesses and home mortgage data collected under the Home Mortgage Disclosure Act (HMDA). Just prior to this evaluation, OCC examiners verified the reliability of this information through sampling a total of 80 home mortgage loans and 60 loans to businesses. Examiners concluded this data was accurate.

For the Community Development Test, we evaluated the bank's community development loans, qualified investments and community development services from October 1, 2005 through December 31, 2008.

## **Description of Institution**

The First National Bank of Elk River (FNB) is a \$430 million intrastate bank headquartered in Maple Lake, Minnesota (MN). FNB's headquarters moved to Maple Lake, MN when it merged with Security State Bank on March 8, 2008. FNB now has seven offices located in the northwest section of the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). Two offices, including the main branch, are located within the city of Elk River. The other offices are located in the cities or townships of Anoka, Hassan, Maple Lake, Monticello and Zimmerman.

FNB is owned by First National Financial Services, a one-bank holding company headquartered in Elk River, Minnesota. First National Financial Services is not engaged in any activities that materially impact the bank's CRA performance.

FNB is a full-service financial institution, offering a wide variety of commercial and retail banking products and services, including insurance and investment products. FNB also has an active mortgage department that operates out of a separate office located in Elk River. The bank's lending focus is small- to medium-sized businesses and present and potential homeowners. As of December 31, 2008, FNB's net loans and leases totaled \$221 million and represented 51% of the bank's assets. The loan portfolio was comprised of commercial loans (71%), residential real estate loans (21%), loans to individuals (3%), and agricultural and all other loans and leases (5%). Tier 1 capital totaled \$37.4 million as of December 31, 2008.

There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its AA.

The bank's most recent CRA performance evaluation was dated September 12, 2005 and a rating of "Satisfactory" was assigned.

## **Description of Assessment Area**

FNB has one AA, which consists of sixty-six census tracts located in the northwest section of the Minneapolis-St. Paul MSA. The AA expanded to include all of Wright County when FNB merged with Security State Bank in March 2008. The current AA includes Wright County, the eastern two thirds of Sherburne County, the western half of Anoka County and the three northernmost census tracts of Hennepin County. FNB's seven office locations are dispersed throughout the AA.

Most census tracts in the assessment area are middle-income. There are no

low-income census tracts and only three moderate-income census tracts located in the AA. One tract designated as moderate-income is primarily the city of Anoka's business district. FNB has one office in Anoka that is located adjacent to this moderate-income census tract. The other two moderate-income tracts are on the extreme southwest and northeast edges of the AA, with the southwest tract being added with the March 2008 merger. FNB does not have offices directly adjacent to these last two tracts.

The total 2007 population for the AA is approximately 530,000. The median family income for the Minneapolis-St. Paul MSA is \$80,900. The AA contains approximately 113,000 housing units, of which 82% are owner occupied. Unemployment rates in the AA counties have been increasing and range from 5.7% to 6.0% as of September 30, 2008.

Competition among financial institutions is strong. Based upon June 30, 2008 FDIC market share data, there are 52 different financial institutions with offices and deposits in the bank's AA. FNB's primary banking competitors are Wells Fargo, U.S. Bank, Twin City Federal, and The Bank of Elk River, in addition to a number of smaller community banks.

We made one community contact and reviewed one other contact made in the past year from our contact database. Information collected from these contacts provided performance context data regarding the assessment area, its credit needs, and the perceived performance of local financial institutions.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The bank's CRA performance for lending is satisfactory. The bank's loan-to-deposit level is satisfactory, in/out ratio reasonable, borrower distribution by income satisfactory, and geographic distribution of loans satisfactory. Each of these conclusions is detailed and supported in the next sections of this report.

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

The bank's quarterly average loan-to-deposit ratio of 72% is reasonable and satisfactory. This average includes quarter-end ratios from September 30, 2005 to September 30, 2008. FNB ranked fifth, out of six state and national banks with offices in Anoka, Sherburne and Wright counties with total assets of approximately \$250 million to \$630 million, as of September 30, 2008. In addition, FNB ranked fifth with a deposit market share of 5.7%, out of the 52 financial institutions with offices in Anoka, Sherburne, and Wright counties plus the cities of Rogers and Champlin. FNB ranked second of the intermediate/small banks in this market. (This deposit market share data is from the FDIC's June 30, 2008 market share report data.) Please see the following table for further details.

<b>Peer Group for Loan-to-Deposit Analysis</b>		
Financial Institution	Total Assets (as of 9/30/08)	Quarterly Average Loan-to-Deposit Ratio
21 <sup>st</sup> Century Bank	\$401 million	102%
Village Bank	\$248 million	98%
Highland Bank	\$627 million	93%
The Bank of Elk River	\$455 million	88%
<b>The First National Bank of Elk River</b>	<b>\$409 million</b>	<b>72%</b>
First Minnesota Bank	\$345 million	70%

Source: Call Report data, September 30, 2005 through September 30, 2008.

### Lending in Assessment Area

The level of lending within the AA is reasonable. By individual primary product, by individual home mortgage product, and in aggregate products analyzed, the substantial majority of the bank's originations are from within the AA. In aggregate, a total of 78% by number and 71% by dollar volume were originated in 2006, 2007 and 2008 within the AA for the loan types noted in the table below.

<b>Loans Reviewed for In/Out Analysis</b>								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$ (000)	%	\$ (000)	%
Loans to Businesses	678	77	197	23	132,016	70	56,633	30
Home Purchase	41	54	35	46	7,140	54	6,102	46
Home Improvement	104	89	13	11	3,622	85	654	15
Home Refinance	242	83	48	17	26,432	79	7,045	21
<b>Totals</b>	<b>1,065</b>	<b>78%</b>	<b>293</b>	<b>22%</b>	<b>169,210</b>	<b>71%</b>	<b>70,434</b>	<b>29%</b>

Source: Data reported under HMDA and collected by bank for commercial loans.

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

The bank's lending to borrowers of different incomes and to businesses of different sizes is satisfactory. Lending to businesses with revenues of less than \$1 million is good and is near to the demographics of the AA. Home lending levels to borrowers with low and moderate incomes is excellent and exceeds the demographics of the AA. Please see the following tables for further details.

<b>Borrower Distribution of Loans to Businesses</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	64%	5%	31%	100%
% of Bank Loans in AA by #	60%	40%	0%	100%
% of Bank Loans in AA by \$	52%	48%	0%	100%

Source: Data collected by bank along with 2008 Dunn and Bradstreet data.

<b>Borrower Distribution of Residential Real Estate Loans</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	14	22	20	34	32	11	34	33
Home Improvement	14	12	20	43	32	26	34	19
Home Refinance	14	18	20	28	32	34	34	20

Source: Data reported under HMDA; 2000 U.S. Census data.

### Geographic Distribution of Loans

The bank’s geographic distribution of loan originations is reasonable and reflects satisfactory performance. Loans are dispersed throughout the AA and there are no lending gaps of concern. Business lending in the three moderate-income tracts exceeds the demographics while home loan refinance lending in these tracts is near to the demographics, as are other HMDA reportable loan types. There are no low-income census tracts in the AA.

<b>Geographic Distribution of Loans to Businesses</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	0	0	4	5	85	84	11	11

Source: Data collected by bank; 2000 U.S. Census data.

<b>Geographic Distribution of Residential Real Estate Loans</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan type</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>
Home Purchase	0	0	3	3	87	94	10	3
Home Improvement	0	0	3	2	87	98	10	0
Home Refinance	0	0	3	2	87	95	10	3

Source: Data reported under HMDA; 2000 U.S. Census data.

### **Responses to Complaints**

The bank has not been subject to any CRA complaints since the last examination.

### **COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the Community Development test is Satisfactory.

Related performance demonstrates reasonable responsiveness to community development needs through qualified investments and community development services. The bank’s AA is viewed as having a moderate level of opportunities for qualified investments and typical needs for community development services.

### **Number and Amount of Community Development Loans**

FNB has reported no community development loans during this evaluation period.

### **Number and Amount of Qualified Investments**

The bank has an adequate level of qualified investments. During this evaluation period, FNB purchased a \$1 million investment in a security backed by individual mortgages within the AA and to borrowers meeting the definition of low- or moderate-income households. FNB has also made an additional 19 donations totaling \$33 thousand to a variety of organizations who used these funds to provide affordable housing, community development, and meet the needs of individuals with low or moderate incomes.

### **Extent to Which the Bank Provides Community Development Services**

FNB staff provides community development services to local organizations, including occasional services in a leadership role. Staff regularly participate in a variety of organizations focused upon providing services and meeting the needs of individuals with low and moderate incomes, promoting local economic development, and for affordable housing. Throughout the evaluation period, bank staff volunteered their expertise to nine organizations focused upon these issues. Involvement included roles of board member, committee member, senior officer, and other volunteer staff positions.

### **Responsiveness to Community Development Needs**

The bank is satisfactorily responsive to the community development needs of the AA through its offering of bank products, services, delivery systems and locations. FNB is a full-service bank offering a wide array of loan, deposit and other financial services to commercial and consumer customers. Full service office locations are dispersed throughout the AA in six middle-income and one upper-income census tract. FNB also offers Internet and telephone banking to bolster service availability. And the bank has seven ATMs in middle-or upper-income census tracts of its AA, five of them are deposit-taking ATMs, to foster transaction availability to its customers and non customers. The deposit-taking ATMs are adjacent to bank offices.

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

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