



LARGE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Public Disclosure

October 21, 2002

Community Reinvestment Act

Performance Evaluation

**The First National Bank of Bemidji
Charter Number: 5582**

**502 Minnesota Avenue
Bemidji, MN 56601**

Office of the Comptroller of the Currency

**North Dakota & NW Minnesota
1309 Highway 29 North, P.O. Box 849
Alexandria, MN 56308**

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, and should not 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.

Table of Contents

OVERALL CRA RATING	2
DEFINITIONS AND COMMON ABBREVIATIONS	3
DESCRIPTION OF INSTITUTION	6
SCOPE OF THE EVALUATION	7
FAIR LENDING REVIEW	9
CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS	10
LENDING TEST	10
INVESTMENT TEST	16
SERVICE TEST	17
APPENDIX A: SCOPE OF EXAMINATION	A-1
APPENDIX B: MARKET PROFILES FOR FULL-SCOPE AREAS	B-1
APPENDIX C: TABLES OF PERFORMANCE DATA	C-1

Overall CRA Rating

Institution’s CRA Rating: This institution is rated **Satisfactory**.

The following table indicates the performance level of **The First National Bank of Bemidji (FNB)** with respect to the Lending, Investment, and Service Tests:

Performance Levels	First National Bank of Bemidji Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X		
High Satisfactory			
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- FNB’s responsiveness to community credit needs is excellent. A substantial majority (89%) of the bank’s loans are inside its assessment area.
- The distribution of loans to borrowers of different income, and to businesses/farms of different sizes is excellent.
- The bank’s community development loans and flexible lending programs had a positive impact on the bank’s lending rating.
- FNB provides an adequate level of qualified investments given the opportunities in its assessment area.
- FNB’s delivery systems are reasonably accessible to geographies and individuals of different income levels. Bank personnel provide a good level of community development services.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Block Numbering Area (BNA): A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also

include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male household and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home Mortgage Loans: Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

Description of Institution

The First National Bank of Bemidji (FNB) is a \$325 million institution located in Bemidji, Minnesota. FNB is an intrastate bank with its main office and four branches all located in Bemidji. FNB is not located in a Metropolitan Statistical Area (MSA).

FNB is owned by First Bemidji Holding Company (FBHC), a one-bank holding company located in Bemidji, Minnesota. FBHC's assets consist primarily of FNB. There are no operating subsidiaries of the bank and affiliate activities do not affect this evaluation.

FNB has operated as a locally owned and managed community bank since its inception in 1897. FNB is a full-service bank offering various loan and deposit products. As of September 30, 2002, net loans represent 53% of total assets and consists of residential real estate loans (63%), commercial loans (17%), consumer loans (17%) and agriculture loans (3%). The bank's Tier-one capital ratio is 12.56%.

FNB's business focus is on retail lending with 80% of its loans being either residential real estate or consumer loans. Agriculture lending is not a primary focus of the bank, and it is not prominent in the bank's assessment area (AA).

There are no legal, financial, or other factors impeding FNB's ability to help meet the credit needs of its community.

FNB's CRA performance was rated "Outstanding Record of Meeting Community Credit Needs" at its last CRA examination dated July 6, 1999.

Scope of the Evaluation

Evaluation Period/Products Evaluated

With the exception of community development (CD) loans, the evaluation period of the Lending Test is January 1, 2000 through June 30, 2002. For CD loans, the Investment Test and the Service Test, the evaluation period is July 7, 1999 through October 21, 2002.

FNB is not a Home Mortgage Disclosure Act (HMDA) reporter as it is not located in a MSA. FNB does collect data on all loans it originates including home mortgage and consumer loans. We evaluated both home mortgage loans and consumer loans under the Lending Test.

For the Lending Test, FNB's origination/purchase of home mortgage loans, small loans to businesses, small loans to farms, consumer loans, and CD loans were evaluated. Market comparisons for small business and small farm lending are based on 2000 peer data. Due to the limited number of large bank CRA reporting banks, FNB is the only large bank reporter with its main office located in the AA, the comparisons to peer data has limited value.

Data Integrity

As part of this CRA evaluation, FNB's publicly filed information on small loans to businesses and small loans to farms was tested for accuracy. FNB optionally collected home mortgage loan data and consumer loan data to be considered in this evaluation. This data was also tested for accuracy. The examination included an evaluation of FNB's data collection processes.

No significant errors were found in any of the tested data. As a result, this evaluation is based on accurate data.

CD loans, investments, and services were verified to ensure they met the regulatory definition for CD. Some items submitted by FNB for consideration were excluded from this evaluation because they did not meet the definition or purpose of CD.

Selection of Areas for Full-Scope Review

FNB has one AA which includes all of Beltrami County, one block numbering area in northern Cass County and one block numbering area in northern Hubbard County, all located in Minnesota.

Ratings

When determining conclusions for the Lending Test, home mortgage products, consumer loans and small loans to businesses were weighted more heavily than small loans to farms. Within home mortgage lending, home purchase loans and home refinance loans were weighted more heavily than home improvement lending. These weightings are reflective of FNB's loan volume by product type over the evaluation period.

Other

Five community contact reports were reviewed during the evaluation period and one new contact was established. The contacts included community housing, service, and economic development organizations. Primary community needs include housing and job creation on the Red Lake Indian Reservation (FNB's low-income tract) and job creation throughout the AA. The AA's population continues to age as younger workers leave the area in search of better paying jobs.

Fair Lending Review

An analysis of the most recent public comments and consumer complaint was performed according to the OCC's risk-based fair lending approach. Based on its 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 1999.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test is rated "Outstanding". FNB's performance in the AA is excellent.

Lending Activity

Refer to Table 1 - Lending Volume and Table 1 - Other in Appendix C for the facts and data used to evaluate the bank's lending activity.

The bank reports loans to small businesses, loans to small farms and CD loans. FNB also provided information on home mortgage loans and consumer loans. In the AA, approximately 67% of the reported loans originated/purchased during the evaluation period were consumer loans. Home mortgage loans represent 15.5%, small business loans (12%), and small farm loans (5.5%).

Among home mortgage loan originations/purchases, approximately 41% were for home mortgage refinance, 33% for home purchase, and 26% for home improvement.

As of June 30, 2001, FNB's deposit market share in the three counties the bank's AA is in was 24.17%, with nearly \$244 million in deposits, which led the three-county area.

FNB's lending activity within the AA is excellent. FNB's market share for small business and small farm loans exceeds its deposit market share. Based on 2000 CRA aggregate data, FNB is the leader in the AA in both loans to small businesses and loans to small farms with 48.76% of the small business loans and 91.13% of the small farm loans.

As FNB is not a HMDA reporter, there are no HMDA market share comparisons.

Distribution of Loans by Income Level of the Geography

FNB's overall geographic distribution of loans reflects adequate penetration in its AA.

Performance Context Issues

The AA has only one low-income BNA which consists of the Red Lake Indian Reservation (RLIR). The RLIR is a closed reservation. Due to its tribal law, lenders are unable to obtain a mortgage on real estate located in the reservation. This severely limits FNB's ability to lend in its low-income BNA. There are only a few real estate parcels in this BNA on which the bank is able to take a mortgage. Therefore, an analysis of the distribution of home mortgage loans in the low-income geography is not meaningful and was not completed.

The bank has been successful in some lending endeavors and in providing services to the RLIR. These items are detailed later in this evaluation.

FNB has difficulty meeting the credit needs in the moderate-income geographies due to the geographic distance between the bank's branches and the geographies. The credit needs of these geographies are also met through competitor banks.

Home Mortgage Loans

Refer to Tables 2, 3, and 4 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases. FNB did not provide information on multi-family loans as the number of these loans is not significant enough to perform a meaningful analysis.

FNB's overall geographic distribution of home mortgage loans is adequate. The bank's percentage of home purchase, home improvement, and home refinance loans made in moderate-income geographies is below the percentage of owner-occupied housing located in moderate-income geographies. The distribution in the moderate-income BNAs is adequate given the number of households (26.38%) that have income below the poverty level in those moderate-income BNAs.

Small Loans to Businesses

Refer to Table 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The geographic distribution of small loans to businesses is adequate. The portion of small loans to businesses made in the low-income geography is below the portion of businesses within that geography. The portion of small loans to businesses in moderate-income geographies is below the portion of businesses that are within those geographies.

The market share of small business loans made in the low-income BNA exceeds FNB's overall market share of business loans in the AA. The market share of such loans made in moderate-income BNAs is below the bank's overall market share.

Small Loans to Farms

Refer to Table 6 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to farms.

The geographic distribution of small loans to farms is good. The portion of small loans made to farms in the low-income geography exceeds the portion of farms within that geography. The portion of small loans made in moderate-income geographies is near to the portion of farms that are in that geography.

The market share of small farm loans made in the low-income BNA exceeds FNB's overall market share of farm loans in the AA. The market share of such loans made in moderate-income BNAs is near to the bank's overall market share.

Consumer

Refer to Table 12 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's consumer loan originations and purchases.

The geographic distribution of consumer loans is good. The portion of loans made to consumers in the low-income geography exceeds the percentage of households within that geography. The portion of consumer loans made in moderate-income geographies is below the percentage of households that are in that geography but is considered good based on the performance factors discussed above.

Lending Gap Analysis

Maps and reports detailing FNB's lending activity over the evaluation period for home mortgage loans, small loans to businesses, small loans to farms, and consumer loans were reviewed to identify gaps in geographical distribution of those loans. No unexplained conspicuous gaps were identified.

Inside/Outside Ratio

A substantial majority of the home mortgage loans, small loans to businesses, small loans to farms, and CD loans originated/purchased by FNB during the evaluation period were within its AA. Ninety-five percent of the bank's home mortgage loans, 91% of its small loans to businesses, 84% of its small loans to farms, and 87% of its consumer loans were within its AA. This performance was positively factored into the overall analysis of the geographic distribution of lending by income level of geography.

Distribution of Loans by Income Level of the Borrower

The borrower distribution of FNB's loans reflects an excellent dispersion among borrowers of different income levels throughout FNB's AA.

Home Mortgage Loans

Refer to Tables 7, 8, and 9 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

Performance Context

The AA has a substantial number of households with income below the poverty level (household income below \$14,130 based on 2001 HUD information). The AA has 23.72% of its households below the poverty level. At this income level, it is difficult for low-income borrowers to purchase a home in the AA.

Home purchase loan borrower distribution is good. The portion of loans made to low-income borrowers is below the comparable demographic, but is considered good based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers is near to the comparable demographic.

Home improvement loan borrower distribution is excellent. The portion of loans made to low-income borrowers is below the comparable demographic, but is considered excellent based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers in the AA exceeds the portion of families that are defined as such.

Refinance loan borrower distribution is good. The portion of refinance loans made to low-income borrowers is below the comparable demographic, but is considered good based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers is near to the comparable demographic.

Small Loans to Businesses

Refer to Table 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The borrower distribution of small loans to businesses is excellent. The portion of FNB's loans to small businesses (businesses with revenues of \$1 million or less) exceeds the portion of businesses that are defined as such. FNB's market share percentage for such loans exceeds FNB's overall market share for small loans to all businesses

Small Loans to Farms

Refer to Table 11 in the Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The borrower distribution of small loans to small farms (farms with revenues of \$1 million or less) is good. The portion of FNB's loans to small farms substantially meets the number of small farms in the AA. FNB's market share percentage of loans to small farms substantially meets FNB's overall market share of loans to all size farms. Ninety-seven percent of FNB's loans to farms were under \$100,000.

Consumer

Refer to Table 12 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's consumer loan originations and purchases.

Consumer loan borrower distribution is excellent. The portion of loans made to low-income borrowers meets the comparable demographic. The portion of loans made to moderate-income borrowers substantially exceeds the comparable demographic.

Community Development Lending

Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans.

CD lending had a positive impact on the Lending Test Conclusions. CD lending opportunities are limited in the bank's AA. Through CD lending and investments, the bank has met the CD needs of the AA.

During the evaluation period, FNB originated six CD loans totaling \$2.6 million in the AA and one additional CD loan for \$235,000 outside of the AA, but in a broader regional area that includes the bank's AA. None of the loans are considered complex or innovative. The following is a discussion on some of the CD loans.

- Loan was a \$2 million participation in a \$28 million loan made to a local Indian tribe. The headquarters of the tribe is located in the bank's AA. Loan proceeds were used to expand two businesses which created hundreds of jobs for low- and moderate-income individuals.
- Loan was for \$190 thousand to finance 10 low-income housing units in the city of Bemidji.
- Loan was for \$235 thousand to finance the rehabilitation of a low-income housing complex in Big Falls, Minnesota. Big Falls is located approximately 20 miles East of the bank's AA.

Product Innovation and Flexibility

Product innovation and flexibility had a positive impact on the Lending Test conclusions.

FNB is innovative in its efforts to lend to the RLIR which is located in low-income BNA. The reservation is a closed reservation meaning that mortgages cannot be held by entities other

than the RLIR. FNB has worked closely with tribal leadership and has extended several loans to help the RLIR that are guaranteed by the tribe. These loans could not be made if the bank relied on traditional mortgages as collateral. Examples of such loans include:

- A \$500,000 line of credit to a local builder to be used as an operating capital line for a housing construction facility in the RLIR.
- A \$209,160 loan made to a local business. The loan was used to remodel and purchase gas station equipment for the retail center.
- Two separate lines of credit, one for \$250,000 and one for \$300,000, were made to a local builder. These funds were used to facilitate housing construction in the RLIR.
- FNB holds \$950,000 in Letters of Credit in favor of a housing organization. These Letters of Credit are used to facilitate housing construction in the RLIR.

FNB offers flexible mortgage related lending programs serving low- and moderate-income borrowers through the Rural Development Rural Housing Service (RDRHS) and the Minnesota Housing Finance Agency (MHFA). Neither of these programs are considered innovative.

The RDRHS program assists low- and moderate-income families in rural Minnesota in obtaining adequate housing. Participants in the loan program are required to attend home buyers education classes. FNB has made 30 loans totaling over \$2.2 million using the RDRHS program during the evaluation period.

The MHFA has several programs that the bank participates in. These range from first-time home buyers programs to home improvement loans. The programs are targeted at low- and moderate-income borrowers. FNB has made 56 loans totaling nearly \$3.7 million under the various MHFA loan programs.

INVESTMENT TEST

The bank's performance under the investment test is rated "Low Satisfactory". FNB's performance in the AA is adequate.

Refer to Table 13 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

CD investments within the bank's AAs are limited. The AA does not have an accessible market for CD qualified investments. Discussions with community contacts indicate that opportunities are limited. We did not identify any opportunities for CD investments in our performance context research or our review of the CRA performance evaluations of competing banks.

During the evaluation period, FNB made 11 investments totaling \$173 thousand. Investments include the purchase of a community redevelopment bond, various grants and donations, and investment in the bank's community foundation.

FNB purchased a \$75 thousand investment issued by the Beltrami County Housing and Redevelopment Authority. The proceeds of this bond were used to construct a community services center in the City of Bemidji. This center houses most of the County social services that are targeted to low- and moderate-income individuals.

FNB makes various grants and donations for CD activities each year. These donations are made to various organizations including; housing organizations, American Indian educational programs, and other CD activities within the AA.

SERVICE TEST

The bank's performance under the Service Test is rated "Low Satisfactory". The performance in the AA is adequate.

Retail Banking Services

Refer to Table 14 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

FNB's delivery systems are reasonably accessible to geographies and individuals of different income levels throughout the AA. Each of FNB's four structural branches is located in a middle-income BNA. The branch locations do not meet the population demographics of the AA. There are no branches in the low- and moderate-income BNAs.

FNB opened two branches during the evaluation period. One branch was a full-service branch located in a middle-income BNA in Bemidji. The other branch is a "Part-time Facility" designed to serve local assisted living centers. This branch focuses on bank customers who have difficulty getting to any bank location. In essence, FNB brings the bank to the customer. Services offered include; cash withdrawals, deposits, certificates of deposit, checkbook balancing, and other basic services. Only a few customers have utilized this branch. All customers served by this branch are located in the middle-income BNAs.

Business hours and services offered throughout the AA are reasonable and do not vary in a way that inconveniences any customers. Each office is open Monday thru Friday, with all locations except the main office also being open on Saturday. FNB offers extended evening hours until 5:00 PM at its North Bank and Express Bank locations and until 6:00 PM at its South Bank location. Full service banking is offered at each location.

FNB offers no minimum balance checking accounts at each location that allows customers, including those that are low- and moderate-income, to maintain accounts without fees.

FNB's ATM network offers an adequate system for delivering retail banking services to the AA. FNB operates seven ATMs in the AA. All ATMs are located in middle-income BNAs. The ATM locations do not meet the population demographics of the AA.

Alternative delivery systems also include twenty-four hour telephone banking and internet banking. These services allow customers to review account information, transfer funds between accounts, and make loan payments. Individuals living within the AA can use the internet banking to apply for deposit and loan accounts.

Community Development Services

FNB's performance in providing CD services to its AA is good. Bank officers regularly participate in a variety of organizations that primarily benefit low- and moderate-income individuals or promote economic development. Officers and bank representatives provide financial expertise to various organizations. These activities include participation and involvement in economic development corporations, bank services education, city organizations, homebuyer education, and other community development organizations.

Major highlights of CD service activities during the evaluation period include:

Red Lake Indian Reservation (RLIR)

A senior FNB officer is part of a task force exploring sovereign lending on the RLIR. The task force is co-hosted by the Red Lake Economic Development Department, the Federal Deposit Insurance Corporation, and the United States Department of Agriculture Rural Development. The goal is to reduce barriers in lending on the RLIR and improve housing and economic development. The entire RLIR is located in a low-income BNA.

Home Stretch

FNB lenders participate in a home buyer training seminar titled; "Home Stretch". The program is a three-part workshop on the home ownership process. The program is aimed at low – and moderate-income individuals who are not sure of the requirements for obtaining a loan and are not familiar with the basics of home ownership. The program is run three to four times a year and FNB lenders are routinely asked to use their financial expertise to teach the seminar.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD Loans): 1/01/2000 to 6/30/2002 Investment and Service Tests and CD Loans: 7/07/1999 to 10/21/2002	
Financial Institution	Products Reviewed	
First National Bank of Bemidji Bemidji, Minnesota	Home mortgage loans, small loans to businesses, small loans to farms, consumer loans, and CD loans.	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None (No affiliate products were reviewed)		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Bemidji AA	Full Scope	

Appendix B: Market Profiles for Full-Scope Areas

Table of Contents

Market Profiles for Areas Receiving Full-Scope Reviews

Bemidji Assessment Area.....	B-2
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Bemidji Assessment Area

Demographic Information for Full-Scope Area: Bemidji Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	11	9%	36%	55%	0%	0%
Population by Geography	40,582	9%	22%	69%	0%	0%
Owner-Occupied Housing by Geography	10,407	6%	24%	70%	0%	0%
Businesses by Geography	1,927	3%	15%	81%	0%	0%
Farms by Geography	102	2%	31%	67%	0%	0%
Family Distribution by Income Level	10,037	8%	24%	68%	0%	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	10,037	12%	29%	59%	0%	0%
Median Family Income (1990)	= \$ 28,933	Median Housing Value Unemployment Rate (2002)		= \$48,526 = 3.9%		
HUD Adjusted Median Family Income for 2001	= \$ 47,100					
Households Below the Poverty Level	= 23.72%					

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 1990 U.S. Census, and XXXX HUD updated MFI.

FNB’s operations in its AA include a full range of loans, deposits, and financial service products. The AA is not part of a Metropolitan Statistical Area. The AA is comprised of all of Beltrami County, the northern portion of Hubbard County, and the northwestern portion of Cass County. The largest city in the AA is Bemidji. Other cities include; Cass Lake, Red Lake, and Blackduck. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The AA contains eleven BNAs. There is one low-income area, four moderate-income areas, and six middle-income areas. The low-income area consists primarily of the Red Lake Indian Reservation (RLIR). The moderate income areas consists of the rural areas outside of the city of Bemidji which contains the middle-income areas.

Economic conditions in the AA are mixed. The southern portion of the AA, including the city of Bemidji, is experiencing steady growth relatively good economic times. The northern portion of the AA, including the RLIR, is experiencing high unemployment and tough economic conditions. Major employers in the AA include Bemidji public schools, North Country Health Services, and Bemidji State University.

Financial institution competition in the AA is strong in the city of Bemidji and moderate through the rest of the AA. Competition consists mostly of smaller community banks located in, or close to, FNB's AA. The city of Bemidji has seen an influx of new banks entering the market. FNB ranks first within the three Counties its AA includes in deposit market share with 24% of deposits. Other leading banks within these Counties are; First National Bank of Walker, Citizens National Bank of Park Rapids, and Wells Fargo Bank Minnesota which have deposit market shares of 16%, 11%, and 8% respectively.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also

presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.

- Table 6. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 8. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 9. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 10. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 11. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage

distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

Table 13. Qualified Investments - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.

Table 14. Distribution of Branch Delivery System and Branch Openings/Closings - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE															Geography: BEMIDJI		Evaluation Period: January 1, 2000 to June 30, 2002				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*										
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp						
Full Review:																					
Bemidji AA	610	100%	5.80	.82	24.37	10.00	69.83	89.18	0.0	NA	NA	NA	NA	NA	NA						
Limited Review:																					

* Market share data is not Available

** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information.

Table 9. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE															Geography: BEMIDJI		Evaluation Period: January 1, 2000 to June 30, 2002				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share										
	#	% of Total**	% Families**	% BANK Loans****	% Families*	% BANK Loans****	% Families*	% BANK Loans****	% Families*	% BANK Loans****	Over all	Low	Mod	Mid	Upp						
Full Review:																					
Bemidji AA	766	100%	27.73	8.88	19.03	17.10	23.28	24.54	29.96	49.48	NA	NA	NA	NA	NA						
Limited Review:																					

* Market share data is not available.

** As a percentage of loans with borrower income information available.

*** Percentage of Families is based on the 1990 Census information.

**** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

Table 10. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES					Geography: BEMIDJI		Evaluation Period: January 1, 2000 to June 30, 2002		
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share [*]	
	#	% of Total ^{**}	% of Businesses ^{***}	% BANK Loans ^{****}	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less
Full Review:									
Bemidji AA	1488	100%	87.49	87.63	88.10	6.92	4.97	34.06	48.76
Limited Review:									

^{*} Based on 2001 Peer Small Business Data: US.

^{**} Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

^{***} Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B – 2001)

^{****} Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses.

Table 11. Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS					Geography: BEMIDJI		Evaluation Period: January 1, 2000 to June 30, 2002		
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share*	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev \$1 Million or Less
Full Review:									
Bemidji AA	573	100%	99.02	97.38	97.03	1.92	1.05	92.73	91.13
Limited Review:									

* Based on 2001 Peer Small Business Data: US.
 ** Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.
 *** Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 2001).
 **** Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms.

Table 13. Qualified Investments

QUALIFIED INVESTMENTS		Geography: BEMIDJI				Evaluation Period: July 7, 1999 to October 21, 2002			
MA/Assessment Area:	Prior Period Investments		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
Full Review:									
Bemidji AA	0	0	11	173	11	173	100%	0	0
Limited Review:									

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

