



PUBLIC DISCLOSURE

November 27, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Coleraine
Charter Number 8322

600 Powell Avenue
Coleraine, MN 55722

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 Satisfactory.

- First National Bank of Coleraine (FNB) average loan-to-deposit (LTD) ratio is reasonable.
- FNB originates a substantial majority of its loans within its assessment area.
- Lending to individual borrowers of different income levels reflects reasonable penetration when compared to the assessment area's demographics.
- The geographic distribution of loans throughout the assessment area revealed poor dispersion.

SCOPE OF EXAMINATION

We assessed FNB's record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA).

This evaluation consisted of a full scope review of the bank's assessment area (AA) utilizing small bank performance standards. We assessed the bank's lending performance by reviewing primary loan products based on loan originations from January 1, 2011 through September 30, 2013 (evaluation period). We determined that residential real estate loans and consumer loans were the bank's primary loan products accounting for 84 percent of loan originations by number and 74 percent by dollar volume during the evaluation period. We placed more weight on consumer loans as they represented the highest percentage of originations during period of review.

We selected a random sample of 20 loans for each primary product type for the analysis periods of 2011 and 2012-2013. Due to recent changes in census data, separate analyses for 2011 and for 2012-2013 were performed to allow for meaningful comparison to the applicable demographic information. 2011 loans were compared to 2000 census data while loans originated in 2012-2013 were analyzed against updated 2010 census data. We expanded our loan sample to ensure accurate results but were only able to do so for the 2012-2013 analysis period due to a lack of loan originations in 2011. As such, our analysis of overall lending performance was weighted more heavily on 2012-2013 sampling results as the bank had more lending activity during this time.

We used call report information to determine the bank's quarterly LTD ratio and Federal Deposit Insurance Corporation (FDIC) market share reports to identify similarly situated banks.

DESCRIPTION OF INSTITUTION

FNB of Coleraine is a \$76 million institution with two offices located in northern Minnesota. The main office is located in Coleraine, Minnesota and the branch operates in nearby La Prairie, Minnesota. Both locations have drive-up windows, night

depositories, and automated teller machines (ATMs). FNB's offices offer traditional banking products and services and maintain standard banking hours. FNB's main office and branch are located in, and surrounded by, middle-income geographies.

FNB is wholly-owned by Jan-Mar Holding Company, headquartered in Coleraine, Minnesota. FNB's corporate structure has not changed since its last CRA evaluation.

As of December 31, 2013, the bank's loan portfolio totaled \$26 million and represented 34 percent of total assets. The loan portfolio consisted of the following outstanding loan types by dollar volume: \$20 million in residential real estate loans (58 percent), \$4 million in commercial and commercial real estate (34 percent) loans, and \$2 million in consumer (9 percent) loans. As of the same date, the bank's investment portfolio totaled \$44 million, or 57 percent of total assets, and consisted of \$30 million in municipal securities and \$14 million in US Treasury and Agency obligations.

FNB received a satisfactory rating at its June 17, 2008 CRA evaluation. There are no legal or financial constraints on FNB that would inhibit its CRA performance.

DESCRIPTION OF ASSESSMENT AREA

FNB's AA includes all of Itasca County in north central Minnesota. It includes the census tracts where the bank is located as well as the surrounding areas that the bank can reasonably service. FNB's AA consists of three moderate-income, six middle-income, and two upper-income census tracts. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The tables on the following two pages summarize the key information for the AA using both 2000 and 2010 U.S. census data:

2000 CENSUS DATA

Demographic and Economic Characteristics of FNB AA for 2000 Census	
Population	
Number of Families	12,449
Number of Households	17,818
% of Low-Income Families	19.54
% of Moderate-Income Families	20.32
% of Middle-Income Families	24.16
% of Upper-Income Families	35.97
Geographies	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0.00
% Moderate-Income Census Tracts/BNA	20.00
% Middle-Income Census Tracts/BNA	80.00
% Upper-Income Census Tracts/BNA	0.00
Median Family Income (MFI)	
2000 MFI for AA	\$43,762
2011 HUD-Adjusted MFI	\$59,200
Economic Indicators	
2011 Annual Unemployment Rate	Itasca County: 8.7% State of Minnesota: 5.8%
2000 Median Housing Value	\$79,105
% of Households Below Poverty Level	10.62

Source: 2000 US Census Data & 2011 HUD Updated MFI

2010 CENSUS DATA

Demographic and Economic Characteristics of FNB AA for 2010 Census	
Population	
Number of Families	12,996
Number of Households	18,998
% of Low-Income Families	19.95
% of Moderate-Income Families	19.52
% of Middle-Income Families	22.90
% of Upper-Income Families	37.63
Geographies	
Number of Census Tracts/BNA	11
% Low-Income Census Tracts/BNA	0.00
% Moderate-Income Census Tracts/BNA	27.27
% Middle-Income Census Tracts/BNA	54.55
% Upper-Income Census Tracts/BNA	18.18
Median Family Income (MFI)	
2010 MFI for AA	\$56,971
2012 HUD-Adjusted MFI	\$60,000
2013 HUD-Adjusted MFI	\$61,700
Economic Indicators	
2012 Annual Unemployment Rate	Itasca County: 7.5% State of Minnesota: 5.4%
2010 Median Housing Value	\$147,503
% of Households Below Poverty Level	12.41

Source: 2010 US Census Data & 2012,2013 HUD Updated MFI

Economic conditions in the AA are weak and unemployment levels remain high. According to the Bureau of Labor Statistics, annual unemployment rates decreased for Itasca County from 8.7 percent in 2011 to 7.5 percent in 2012. While improved, this is significantly higher than annual unemployment rates for the State of Minnesota which were 5.8 percent in 2011 and 5.4 percent in 2012. The AA has one of the highest unemployment rates in the state due to the lack of and the demand for skilled labor. In addition, the percentage of households below the poverty level increased from 10.62 percent in 2000 to 12.41 percent in 2010 according to US census data.

Major industries in the area remain unchanged and include tourism, services (educational, health, and social), government, retail trade, and manufacturing. Tourism is the county's largest industry as it is a popular recreational area for outdoor activities given the lakes and forest geographies. Major employers in the area are the UPM

Blandin Paper Mill, Independent School District #318, Grand Itasca Clinic and Hospital, and Essentia Health Clinic.

Competition from other financial institutions is high. As of the June 30, 2013 FDIC Market Share Report, FNB ranks fourth in deposit market share among nine financial institutions in Itasca County with \$71 million in deposits or 9.48 percent of market share. Based on asset size, FNB ranks eighth out of the nine institutions.

We did not identify any unmet credit needs in FNB's AA through our community contact with the local chamber of commerce. Our contact stated that financing for small businesses is the most immediate credit need in the area. Our contact indicated banks in the area have demonstrated the willingness to provide business financing to local businesses that are a good credit risk and have stable business plans. The contact stated banks in the AA are more cautious with their lending practices due to a continued weak economy and insufficient business planning by prospective borrowers. Based on the contact's observations, financial institutions maintain a positive perception within the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's quarterly loan-to-deposit (LTD) ratio is reasonable given the bank's size, current economic conditions, and the credit needs of its AA. FNB's LTD ratio exhibited a high of 51.77 percent, a low of 33.40 percent, and averaged 39.66 percent over the past 20 quarters from September 30, 2008 to June 30, 2013. FNB sells a significant portion of residential real estate mortgages on the secondary market which are not reflected in these LTD ratios. When the secondary market mortgage originations are included, the bank's average LTD ratio increases to 63.04 percent with a high of 74.94 percent and a low of 54.78 percent over the same time period. FNB's LTD ratio falls below similarly situated banks, defined as banks headquartered in Itasca County with total assets of \$100 million or less, but is reasonable considering lower loan demand, strong competition from other financial institutions in the AA, and the overall size of the AA.

The following table shows the LTD ratios for FNB and similarly situated banks:

LTD for Similarly Situated Banks in FNB AA		
Institution	Assets (\$000s) (as of 6/30/2013)	Average Loan-to-Deposit Ratio (3Q08-2Q13)
First National Bank of Coleraine	\$76,148	39.66%
Woodland Bank	\$65,048	82.78%
First State Bank of Bigfork	\$64,441	83.74%

Source: Call report data

Lending in Assessment Area

FNB originates a substantial majority of its loans to borrowers located within its defined AA. Based on our loan sampling, the bank originated 95 percent by number and 91 percent by dollar amount of its loans within its designated AA during the period of January 1, 2011 through September 30, 2013.

The following table shows loans originated inside the AA by number and dollar amount:

Lending in FNB of Coleraine AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Loans	37	92.50	3	7.5	40	4,676	90.15	511	9.85	5,187
Consumer Loans	39	97.50	1	2.5	40	835	96.95	26	3.05	861
Totals	76	95.00	4	5.0	80	5,511	91.12	537	8.88	6,048

Source: OCC loan sample

Lending to Borrowers of Different Incomes

Lending to individual borrowers of different income levels reflects reasonable penetration when compared to the AA's demographics. Our assessment of performance is based on both the 2011 and 2012-2013 analysis periods, but 2012-2013 is weighted more heavily as a majority of the bank's lending activity occurred during this time. More weight was placed on consumer lending as this represented the majority of loan originations during the evaluation period.

Borrower Distribution of Consumer Loans

The distribution of consumer loans reflects reasonable penetration among individuals of different income levels when compared to the AA's demographics.

The distribution of consumer loans reflects reasonable penetration for the 2012-2013 analysis period. Lending to low-income borrowers fell below the demographic

comparator but is reasonable given 12.41 percent of households in the AA are below poverty level and may not qualify for credit. The bank’s performance exceeded the demographic for lending to moderate-income borrowers.

2012-2013 Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	25.07	15.00	16.32	16.67	19.28	38.33	39.34	30.00

Source: OCC Loan Sample & 2010 U.S. Census Data

The distribution of consumer loans reflects reasonable penetration to low- and moderate-income individuals for the 2011 analysis period. The bank’s lending to low-income borrowers exceeded the demographic comparator, but fell below the demographic comparator for moderate-income borrowers.

2011 Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	24.06	25.00	17.95	10.00	19.57	40.00	38.42	25.00

Source: OCC Loan Sample & 2000 U.S. Census Data

Borrower Distribution of Residential Real Estate Loans

The distribution of home loans reflects poor penetration among individuals of different income levels when compared to the AA’s demographics.

The distribution of home loans reflects poor penetration to low- and moderate-income individuals for the 2012-2013 analysis period. The bank did not originate any loans to low-income borrowers compared to 20 percent of families in the AA that are low-income. Lending to moderate-income families also fell below the demographic comparator. We took the family poverty level of 7.66 percent into consideration in our analysis as well as the fact that homeownership in the AA is below average and, per census information, has fallen from 60.11 percent in 2000 to 57.7 percent in 2010.

2012-2013 Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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 Loans	19.95	0.00	19.52	10.00	22.90	30.00	37.63	60.00

Source: OCC Loan Sample & 2010 U.S. Census Data

The distribution of home loans reflects reasonable penetration to low- and moderate-income individuals for the 2011 analysis period. The bank fell below the demographic comparator for low-income borrowers, but significantly exceeded the demographic comparator in lending to moderate-income borrowers.

2011 Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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 Loans	19.54	10.00	20.32	30.00	24.16	30.00	35.97	30.00

Source: OCC Loan Sample & 2000 U.S. Census Data

Geographic Distribution of Loans

The bank's geographic distribution of loans reflects overall poor dispersion throughout the AA. The bank's AA contains no low-income tracts so our analysis focused on lending in the moderate-income tracts. We took into consideration certain factors that may have contributed to the bank's poor dispersion of consumer and home loans. They include stiff competition from other financial institutions, with two of the three moderate-income census tracts located near competing financial institutions in Deer River, Minnesota and Big Fork, Minnesota. These towns are 21 miles and 40 miles from Coleraine, respectively. The distance of FNB from these two moderate-income census tracts may influence individuals to establish their credit relationships at the competing institutions due to proximity and convenience. In addition, these same two moderate-income census tracts, which are significantly larger than the third moderate-income tract, are located on Native American Indian Reservations. Specialized home lending programs available to these individuals also may impact FNB's ability to lend in these tracts. We also considered the fact that the majority of the AA's population is located in middle-income census tracts in the southern half of the AA which are closer in proximity to the bank's locations.

Geographic Distribution of Consumer Loans

The bank’s geographic distribution of consumer loans reflects overall poor dispersion throughout the AA.

The 2012-2013 geographic distribution of consumer loans in the AA reflects poor dispersion with 5 percent of loans made in moderate-income tracts compared to 17 percent of moderate-income AA households. Please refer to the table on the following page for details.

2012-2013 Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00	0.00	17.01	5.00	67.52	75.00	15.47	20.00

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

The 2011 geographic distribution of consumer loans in the AA reflects very poor dispersion in moderate-income census tracts as noted below with no lending in the moderate-income tracts. As noted previously, we were unable to expand our sampling due to a lack of lending activity during 2011 so placed less weight on this analysis period.

2011 Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00	0.00	11.40	0.00	88.60	100.00	0.00	0.00

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

Geographic Distribution of Residential Real Estate Loans

The bank’s geographic distribution of home loans reflects very poor dispersion throughout the AA. As noted on the following tables, the bank originated zero percent of its home loans in moderate-income census tracts in both the 2012-2013 and 2011 analysis periods.

2012-2013 Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Consumer	0.00	0.00	16.83	0.00	65.75	91.67	17.43	8.33

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

2011 Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Consumer	0.00	0.00	11.54	0.00	88.46	100.00	0.00	0.00

Source: OCC Loan Sample and 2000 U.S. Census data

Responses to Complaints

FNB has not received any CRA-related complaints since the last CRA evaluation dated June 17, 2008.

Fair Lending or Other Illegal Credit Practices Review

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

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