



## **PUBLIC DISCLOSURE**

October 5, 1998

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Deerwood  
Charter Number 9703**

**20 Archibald Road  
Deerwood, Minnesota 56444**

**Office of the Comptroller of the Currency  
Duluth Field Office  
302 West Superior Street, Suite 307  
Duluth, Minnesota 55802**

**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 of Deerwood prepared by The Comptroller of the Currency, the institution's supervisory agency, as of October 5, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C. F. R. § Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

The First National Bank of Deerwood reasonably lends to various income levels and small businesses in proportion to the population and credit needs of its assessment area. The bank's loan-to-deposit level, geographic distribution of loans, and level of lending within its assessment area demonstrate reasonable lending performance.

## **DESCRIPTION OF THE INSTITUTION:**

The First National Bank of Deerwood (FNB) is a \$104 million bank located in central Minnesota. FNB has three offices: the main office is located in Deerwood (population of 526); one branch office is located in Brainerd (population of 12,515); and one branch is located in Garrison (population of 137). In addition, FNB maintains four automated teller machines (ATM). One is located at the main office, one is located at the Brainerd branch, and the remaining two ATMs are located in convenience stores in the Garrison area. All ATMs are cash-dispensing only.

FNB is primarily a residential real estate lender with 43% of its loan portfolio secured by 1-4 family residential real estate mortgages. In addition, FNB generates a large volume of commercial and commercial real estate loans, currently comprising 20% and 19% of the loan portfolio, respectively. The loan portfolio represents 55% of total assets. FNB received a rating of Outstanding at the last CRA examination dated April 8, 1996. FNB has no financial constraints inhibiting its performance or ability to meet the lending needs of its assessment area.

FNB is owned by Deerwood Bankshares, Incorporated, a \$13 million one-bank holding company. The holding company is also located in Deerwood, Minnesota. Deerwood Bankshares, Incorporated purchased FNB in January 1997. Deerwood Bankshares, Incorporated operates the First Insurance Agency within FNB's Deerwood office.

## **DESCRIPTION OF THE ASSESSMENT AREA:**

FNB's assessment area (AA) includes 13 block numbering areas (BNA) within Crow Wing County plus four contiguous BNAs in Aitkin and Mille Lacs Counties. FNB excludes three BNAs in the northeast corner of Crow Wing County due to their distance from bank offices and the lack of significant lending penetration that results. This AA meets the requirements of CRA and does not arbitrarily exclude low- or moderate-income geographies.

Economic conditions are good and unemployment is low. Primary industries include light manufacturing, tourism, paper products, health care, and local government. The AA is not within a Metropolitan Statistical Area (MSA). As such, the 1998 statewide nonmetropolitan median family income of \$40,500 is used for definition and comparison purposes. The AA contains approximately 12,734 families. The income levels of these families is as follows:

Income Level of Family	Percentage of Total Families Within the AA
Low (\$ 0 - \$ 20,250)	23.03%
Moderate (\$ 20,250 - \$ 32,400)	19.22%
Middle (\$ 32,400 - \$ 48,600)	22.70%
Upper (Greater than \$ 48,600)	35.04%

A breakdown of the AA's 17 BNAs by income level is as follows:

Income Level of BNA	Proportion of Total BNAs
Low	0.00% ( 0/17)
Moderate	17.65% ( 3/17)
Middle	76.47% (13/17)
Upper	5.88% ( 1/17)

Outreach efforts and examiner's familiarity of the area identified the AA's primary credit needs as residential real estate, small business, and general consumer loans. Lending competition is strong as several banks, credit unions, and mortgage companies maintain main or branch offices within the AA. Examiners met with a local Realtor and a representative of the county government to better understand the local economic conditions, credit needs of the AA, and the financial institutions' impact on the AA.

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

### LOAN-TO-DEPOSIT

FNB's average quarterly loan-to-deposit ratio is reasonable. Over the nine quarters since the last CRA examination, FNB averaged a 69.27% loan-to-deposit ratio. This average is comparable to the 73.21% combined average of eight other banks within the AA with total assets of less than \$125 million.

In addition, FNB brokers residential real estate loans and sells loans through the secondary market. While these activities assist in FNB's efforts to meet local credit needs, the volume of brokered and sold loans are not reflected in FNB's quarterly loan-to-deposit ratio.

### LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

FNB's distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable. FNB lends in a similar proportion to the demographics of the AA.

### Real Estate-Related Lending

FNB's real-estate lending to borrowers of various incomes is comparable to income demographics. Examiners selected a judgmental sample of 86 loans secured by first liens on residential real estate (a primary product line). These loans were originated within FNB's assessment area since the last CRA examination. The sample represented 33% of all loans secured by first liens on residential real estate originated since the last CRA examination. The following table displays the comparison.

Income Level*	Percent of Families Within Each Income Level	Percent of the Number of Loans Originated in Each Income Level	Percent of the Dollar of Loans Originated in Each Income Level
Low	23.03%	18.60%	7.35%
Moderate	19.22%	19.77%	19.23%
Middle	22.70%	30.23%	18.97%
Upper	35.04%	31.40%	54.45%

\* See previous tables for the dollar ranges of the various income levels.

### Commercial Lending

A judgmental sample of 33 loans to commercial borrowers (a primary product line) originated since the last CRA examination reflects management's efforts to lend to businesses of different sizes. This sample represents 30% of all loans to commercial customers originated within FNB's assessment area since the last CRA examination. Approximately 79% of commercial lending is conducted with small businesses\*. The following table illustrates the breakdown of loans to commercial business of various sizes.

Annual Total Revenues of Businesses	Percent of Number of Loans Originated
Less than or equal to \$100,000	39.39%
Greater than \$100,000 to \$250,000	21.21%
Greater than \$250,000 to \$500,000	15.05%
Greater than \$500,000 to \$1,000,000	3.03%
Greater than \$1,000,000	21.21%

\* A small business is defined as a business having annual revenues of less than \$1 million.

A review of annual business revenues reveals that the vast majority of businesses within the AA are categorized as small businesses. Of the 1,841 businesses reporting annual revenue data, 92% reported revenues less than \$1 million. Of those small businesses, 94% reported revenues of less than \$500 thousand. Approximately 20% of the businesses did not report annual revenues.

### LENDING WITHIN THE ASSESSMENT AREA

The majority of FNB's loans are originated to borrowers in the AA. Examiners reviewed and verified the accuracy of Bank-generated reports of all loans secured by first liens on residential real estate and all non-real estate secured commercial loans originated since the last CRA examination.

#### Residential Real Estate Lending

FNB originated loans totaling approximately 77% by number and 75% by dollar within its AA. During this time period, FNB originated 333 loans secured by first liens on residential real estate totaling approximately \$15 million.

#### Commercial Lending

FNB originated loans totaling approximately 79% by number and 67% by dollar within its AA. During this time period, FNB originated 139 non-real estate secured loans to commercial borrowers totaling approximately \$9.6 million.

### GEOGRAPHIC DISTRIBUTION OF LOANS

FNB's geographic distribution of loans within the AA is reasonable given the populations and housing occupancy levels of the respective BNAs.

For purposes of this analysis, examiners used the previously stated sample of 86 loans secured by first liens on residential real estate and originated since the last CRA examination. Examiners compared the distribution of lending within the three moderate-income BNAs to the remaining middle- and upper-income BNAs. The moderate-income BNAs are largely rural and contain only a small percentage of the AA's total population. As the following table illustrates, FNB's lending levels within the moderate-income BNAs reasonably approximate the respective population levels.

Income Level of BNA	Percent of Loans By Number	Percent of Loans By Dollar	Percent of AA Population	Percent of AA Occupied Housing Units
Moderate-income	5.75%	4.33%	9.76%	9.95%
Middle- or Upper-income	94.25%	95.67%	90.24%	90.05%

Due to the rural, sparsely populated location of the three moderate-income BNAs, a review of commercial lending patterns within those BNAs is not deemed appropriate for this evaluation.

### RESPONSE TO CRA-RELATED COMPLAINTS

FNB has not received any CRA-related complaints during the time frame of this evaluation.

### COMPLIANCE WITH ANTIDISCRIMINATION LAWS

No violations of the substantive provision of antidiscrimination laws and regulations were identified.

## SOURCE AND VALIDATION OF GEOGRAPHIC AND INCOME/REVENUE DATA

Loans secured by first liens on residential real estate:

Examiners used a Bank-generated report of loans originated since the last CRA examination to determine lending volume and geographic location. Examiners determined that the report was reliable through direct comparison of approximately 25% of the reported information to loan files. In addition, approximately 10% of the reported loans' geographic information was tested using geocode programs available on the Internet; no discrepancies were noted.

Non-real estate secured commercial loans:

Examiners used a Bank-generated report of loans originated since the last CRA examination to determine lending volume. Examiners determined that the report was reliable through direct comparison of approximately 30% of the reported information to loan files. In addition, approximately 10% of the reported loans' geographic information was tested using geocode programs available on the Internet; no discrepancies were noted.