



Comptroller of the Currency
Administrator of National Banks

Minneapolis Duty Station
920 Second Avenue South, Suite 800
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PUBLIC DISCLOSURE

February 17, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of the Lakes
Charter Number 15309**

**2445 Shadywood Road
Navarre, Minnesota 55392**

Office of the Comptroller of the Currency

**Minneapolis West Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

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 the Lakes** prepared by **the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 17, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- The First National Bank of the Lakes meets the credit needs of the community, as demonstrated by the significant volume of small dollar loans (under \$5 thousand) made to consumers and small businesses. These loans comprise 49% of the loan portfolio.
- A majority (over 85%) of loans by number and dollar volume are located within the bank's assessment area.
- The bank affirmatively lends to individuals of different income levels (including low- and moderate-income borrowers) and to small businesses.

DESCRIPTION OF INSTITUTION

First National Bank of the Lakes (FNB) is a \$ 42 million independent financial institution located in the Minneapolis/St Paul Metropolitan Statistical Area (MSA). The bank's main office is located in the Twin Cities' western suburbs in the village of Navarre. The bank has two branches in the Minneapolis downtown business district (Baker, Skyway) and a third branch in the area of Uptown. Uptown is immediately southwest of downtown Minneapolis and includes the "Chain of the Lakes" area. The main office and all branches are full service facilities. The bank has two automated teller machines (ATMs). These ATMs are located at the Uptown and Skyway branches and do not accept deposits.

The bank specializes in small business and consumer lending. Small business lending includes Small Business Administration (SBA) and Minneapolis Community Development Agency (MCDA) loans. Commercial loans and individual loans comprised 43% and 33%, respectively, of total loans at September 30, 1997. Additional lending services include nonconventional residential real estate, home equity, and home improvement loans (24%).

FNB received a "Satisfactory" rating at its December 31, 1994 CRA examination. There are no legal impediments or other factors, including the financial condition of the bank, which limit its ability to perform in accordance with CRA regulations.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area includes all of Hennepin County and is within the Minneapolis/St Paul MSA. The bank's service area is limited to the area surrounding the main office in Navarre and the geographic corridor between Navarre and downtown Minneapolis. Service area limitations result from intense marketplace competition, limited branching facilities, and the bank's asset size.

Hennepin County, with a population of one million, is serviced by numerous financial institutions of varying size and branching networks, limiting the bank's ability to reach beyond each individual branch's neighborhood. In addition, the bank's asset size limits its ability to provide larger dollar loans which may be available in a large metropolitan area. The service area surrounding FNB's branching network is predominately middle and upper income census tracts. However, the assessment area does not arbitrarily exclude any low- or moderate-income areas.

MSA median family income (MFI) is \$54,600 (1996 data). The following summarizes the income levels of individual census tracts and families located within the bank's assessment area:

	CT's	Families
Low Income (< 50% MSA MFI)	12.63%	6.18%
Moderate Income (50%-79%)	15.70%	11.03%
Middle Income (80%-119%)	46.08%	51.08%
High Income (120%+)	25.60%	31.71%

We did not identify any unmet credit needs in FNB's assessment area. The MSA's economy is prospering and there are many financial institutions willing and able to provide all types of credit and other assistance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio:

FNB's loan-to-deposit (LTD) is reasonable given the bank's size, financial condition, and competitive environment. The bank's net LTD ratio was 48.77% on September 30, 1997 and has averaged 47.57% over the preceding five fiscal quarters. While below area bank averages, FNB's LTD ratio is supplemented by significant originations of small dollar loans.

Lending in Assessment Area:

FNB makes a majority of its loans to borrowers located within its defined assessment area. An analysis of outstanding loans on December 31, 1997 shows 85% of loans by number and 89% by dollar were made within the bank's assessment area.

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

The distributions of borrowers reflects excellent dispersion among individuals of different income levels, especially for consumer and business loans. Examiners sampled 10% of consumer loans by volume and 24% of business loans by volume originated in 1996 and 1997.

	Percentage of Consumer Loans	Percentage of Families
Low Income	26.67%	6.18%
Moderate Income	30.00%	11.03%
Middle Income	16.67%	51.08%
Upper Income	26.67%	31.71%

	Percentage of Business Loans	Percentage of Businesses
Businesses with gross revenues: under \$1 million	97.14%	69.64%

Small business lending practices are enhanced by FNB's participation in the federally sponsored SBA program (\$2 million) and the Minnesota state sponsored MCDA program (\$65 thousand).

FNB also originates a modest volume of residential real estate loans. Dispersion of these loans is reasonable given the service area's proximity to middle and upper census tracts and the level of competition from mortgage banking institutions. Out of 17 real estate applications received from the bank's assessment area in 1996, the bank granted credit in 16 cases (94%). Of these, 56% were from upper income census tracts with the remaining from middle income tracts. The bank's single denial was from a middle income census tract.

Geographic Distribution of Loans:

Geographic distribution analysis is not truly meaningful as middle and upper income census tracts dominate the bank's service area. Examiners noted distribution among all income levels in relation to the distribution of census tracts by branch within the service area.

FNB's Navarre, Baker, and Skyway branches are located entirely within upper and middle income census tracts. The Uptown branch is comprised of 84% (16 of 19) upper and middle income census tracts. Distribution by volume among the bank's service area is as follows:

	<u>Business</u>	<u>Consumer</u>
Low/Moderate Tracts	28.57%	8.57%
Middle/Upper Tracts	71.43%	91.43%

Record of compliance with antidiscrimination laws:

FNB's record of compliance with antidiscrimination laws is satisfactory. Policies and procedures are in place to prevent discriminatory or other illegal credit practices. No substantive violations of antidiscrimination laws were identified.